

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

GLOBAL OFFERING



Sole Sponsor



國泰君安國際
GUOTAI JUNAN INTERNATIONAL

Guotai Junan Capital Limited

Sole Global Coordinator, Bookrunner and Lead Manager



國泰君安國際
GUOTAI JUNAN INTERNATIONAL

Guotai Junan Securities (Hong Kong) Limited

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should seek independent professional advice.

MERRY GARDEN HOLDINGS LIMITED

美麗家園控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares: 180,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares: 18,000,000 Shares (subject to re-allocation)
Number of International Placing Shares: 162,000,000 Shares (subject to re-allocation and the Over-allotment Option)
Maximum Offer Price: HK\$1.15 per Offer Share (payable in full on application, plus brokerage of 1.0%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%)
Nominal value: HK\$0.01 per Share
Stock code: 1237

Sole Sponsor



Guotai Junan Capital Limited

Sole Global Coordinator, Bookrunner and Lead Manager



Guotai Junan Securities (Hong Kong) Limited

A copy of this prospectus, having attached thereto the documents specified in the sections entitled "Documents Delivered To The Registrar of Companies in Hong Kong" and "Documents Available for Inspection" in Appendix VII of this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above. Hong Kong Exchanges and Clearing Limited, The Hong Kong Stock Exchange Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

The Offer Price is expected to be determined by agreement between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around 29 June 2012, but in any event no later than 4 July 2012.

The Offer Price will be not more than HK\$1.15 per Offer Share and is currently expected to be not less than HK\$1.00 per Offer Share unless otherwise announced. Investors applying for Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$1.15 per Offer Share, unless otherwise announced, together with brokerage of 1.0%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK\$1.15. The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, with the consent of our Company, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, a notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or of the indicative offer price range will be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.merrygardenholdings.com not later than the morning of the last day for lodging applications under the Hong Kong Public Offer. If applications for Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offer, then even if the number of Offer Shares and/or indicative offer price range is so reduced, such applications cannot subsequently be withdrawn. Further details are set out in the sections entitled "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus. If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before 4 July 2012, the Global Offering will not proceed and will lapse.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus and the related Application Forms, including the risk factors set out in the section entitled "Risk Factors" in this prospectus.

Pursuant to the termination provisions contained in the Underwriting Agreements in respect of the Offer Shares, the Sole Global Coordinator, for itself and on behalf of the Underwriters, has the right in certain circumstances, in its sole discretion, to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (which is currently expected to be 6 July 2012). Further details of the terms of the termination provisions are set out in the paragraph entitled "Grounds for termination" under the section entitled "Underwriting" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable U.S. State securities laws.

Monday, 25 June 2012

EXPECTED TIMETABLE

Our Company will issue an announcement in Hong Kong to be published in The Standard (in English) and the Hong Kong Economic Journal (in Chinese) and on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.merrygardenholdings.com if there is any change in the following expected timetable of the Hong Kong Public Offer.

Latest time to complete electronic applications
under the **White Form eIPO** service through
the designated website www.eipo.com.hk⁽³⁾ 11:30 a.m. on Thursday, 28 June 2012

Application lists open⁽²⁾ 11:45 a.m. on Thursday, 28 June 2012

Latest time for lodging **White** and **Yellow**
Application Forms and giving **electronic**
application instructions to HKSCC⁽⁴⁾ 12:00 noon on Thursday, 28 June 2012

Latest time to complete payment of **White Form eIPO**
applications effecting internet banking transfer(s)
or PPS payment transfer(s) 12:00 noon on Thursday, 28 June 2012

Application lists close⁽²⁾ 12:00 noon on Thursday, 28 June 2012

Expected Price Determination Date⁽⁵⁾ Friday, 29 June 2012

Announcement of the Offer Price, the indication of the levels
of interest in the International Placing, the results of
applications in respect of the Hong Kong Public Offer
and the results and basis of allotment under the Hong Kong
Public Offer to be published in the The Standard (in English)
and the Hong Kong Economic Journal (in Chinese) and on
the Stock Exchange's website at www.hkexnews.hk and our
Company's website at www.merrygardenholdings.com from Thursday, 5 July 2012

Results of allocations in the Hong Kong Public Offer
(with successful applicants' identification document
numbers, where appropriate) to be available through
a variety of channels as described in the section entitled
"How to Apply for the Hong Kong Offer Shares —
Results of allocations" from Thursday, 5 July 2012

Results of allocations in the Hong Kong Public Offer will be
available at www.iporesults.com.hk with a "search by ID" function Thursday, 5 July 2012

Despatch of Share certificates in respect of
wholly or partially successful applications pursuant
to the Hong Kong Public Offer on or before⁽⁶⁾ Thursday, 5 July 2012

EXPECTED TIMETABLE

Despatch of White Form e-Refund Payment instructions/refund cheques
in respect of wholly successful (if applicable) or wholly
or partially unsuccessful applications pursuant to the
Hong Kong Public Offer on or before⁽⁷⁾ Thursday, 5 July 2012

Dealings in Shares on the Hong Kong Stock Exchange
to commence on Friday, 6 July 2012

- (1) All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section entitled “Structure of the Global Offering” in this prospectus. If there is any change in this expected timetable, an announcement will be published in The Standard in English and in the Hong Kong Economic Journal in Chinese and on the Stock Exchange’s website at www.hkexnews.hk and our Company’s website at www.merrygardenholdings.com.
- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 28 June 2012, the application lists will not open and close on that day. Please see the paragraph entitled “Effect of bad weather conditions on the opening of the application lists” under the section entitled “How to apply for Hong Kong Offer Shares” in this prospectus. If the application lists do not open and close on Thursday, 28 June 2012, the dates mentioned in this section entitled “Expected Timetable” may be affected.
- (3) You will not be permitted to submit your application to the White Form eIPO Service Provider through the designated website at, www.eipo.com.hk, after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (4) Applicants who apply by giving **electronic application instructions** to the HKSCC should refer to the paragraph entitled “How to apply by giving electronic application instructions to HKSCC” under the section entitled “How to apply for Hong Kong Offer Shares” in this prospectus.
- (5) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about Friday, 29 June 2012 and, in any event, not later than Wednesday, 4 July 2012. If, for any reason, the Offer Price is not agreed by our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering (including the Hong Kong Public Offer) will not proceed and will lapse.
- (6) Applicants who apply for 1,000,000 or more Hong Kong Offer Shares and have indicated in their Application Forms that they wish to collect Share certificates (if applicable) and refund cheques (if applicable) in person may do so from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 5 July 2012 or any other date notified by us in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques. Applicants being individuals who opt for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by sending their authorised representatives each bearing a letter of authorisation from his corporation stamped with the corporation’s chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar. Applicants who have applied on **Yellow** Application Forms may not elect to collect their Share certificates, which will be deposited into CCASS for the credit of their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. Uncollected Share certificates and refund cheques will be despatched by ordinary post to the addressees specified in the relevant applications at the applicants’ own risk. Further information is set out in “How to Apply for Hong Kong Offer Shares”.
- (7) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and also in respect of successful applications in the event that the Offer Price is less than the initial price per Hong Kong Offer Share payable on application. Part of your Hong Kong identity card number/passport number, or, if you are joint

EXPECTED TIMETABLE

applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong identity card number/ passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of your refund cheque or may invalidate your refund cheque. Further information is set out in “How to Apply for Hong Kong Offer Shares” in this prospectus.

Share certificates will only become valid certificates of title provided that the Hong Kong Public Offer has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of their Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

For further details in relation to the Hong Kong Public Offer, see the sections entitled “How to Apply for Hong Kong Offer Shares” and “Structure of the Global Offering” in this prospectus.

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This prospectus is issued by Merry Garden Holdings Limited solely in connection with the Hong Kong Public Offer and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to subscribe for or buy any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy any security in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus and the Application Forms. Any information or representation not made in this prospectus and the Application Forms must not be relied on by you as having been authorised by our Company, the Sole Global Coordinator, the Sole Sponsor, the Underwriters, any of their respective directors, or any other person or party involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus and should be read in conjunction with the full set of this prospectus. Since this is only a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide whether to invest in our Shares.

There are risks associated with any investment. Some of the particular risks in investing in our Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide whether to invest in our Shares.

OVERVIEW

We are a wooden leisure products enterprise in the PRC covering the research and development, design, production and sale of leisure household products and timber villas, sheds, and their related parts and structures. We have launched a series of wooden leisure products in order to espouse a leisure and natural lifestyle. We established our first self-operated store in December 2011. We plan to establish more self-operated stores from 2012 to 2014, and such development will be our additional business focus.

Our products are sold mainly to trading company customers and overseas retail companies with a network of retail points of sales on an OEM and ODM basis. During the Track Record Period, revenue from our OEM and ODM businesses increased from approximately RMB110.0 million for the year ended 31 December 2009 to approximately RMB172.5 million for the year ended 31 December 2010 and further to approximately RMB240.9 million for the year ended 31 December 2011, which accounted for approximately 100.0%, 86.4% and 78.5% respectively of our total revenue for the years ended 31 December 2009, 2010 and 2011.

While we are able to maintain a substantial growth in revenue from our OEM and ODM businesses, we have explored additional revenue sources by introducing our “Merry Garden 美丽家园” branded products to the PRC market since 2010. Notwithstanding the introduction of our own-branded products principally through engaging distributors and establishing self-operated stores, there has been no material shift in our business model and we will maintain the development of our OEM and ODM businesses. We engaged 4, 7 and 9 distributors to distribute our own-branded products as at 31 December 2010, 31 December 2011 and the Latest Practicable Date, respectively.

Our principal PRC customers are located in Fujian Province, Guangdong Province and Shanghai. The market for our products is fragmented.

Our OEM and ODM businesses and the sales of our “Merry Garden 美丽家园” branded products

We sell our products through OEM and ODM arrangements and under our brand “Merry Garden 美丽家园”. Under our OEM arrangements, we manufacture products for our customers who set forth specific requirements (such as blueprints, required materials for the products, anti-corrosive technologies to be applied). For our ODM business, we provide our customers with design and manufacturing services subject to their specific orders. Our own-branded products have been launched since 2010 and are designed and produced by us. These products are sold under our own-brand “Merry Garden 美丽家园”.

Our OEM and ODM businesses were our Group’s major source of revenue during the Track Record Period and it has always been our focus to maintain and enhance our business relationships

SUMMARY

with our existing OEM and ODM customers and further develop our OEM and ODM networks. Given the significance of and the contribution made by our OEM and ODM businesses, the introduction of our own-branded products will not represent a material shift in our business model.

The following table sets out the breakdown of the sales of our OEM, ODM and own-branded products during the Track Record Period and for the four months ended 30 April 2012 (based on our unaudited management accounts).

| | 2009 | | Years ended 31 December 2010 | | 2011 | | Four months ended 30 April 2012 | |
|----------------------|----------------|--------------|---------------------------------|--------------|----------------|--------------|---------------------------------------|--------------|
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| OEM | 89,419 | 81.3 | 108,664 | 54.4 | 148,581 | 48.4 | 58,986 | 39.8 |
| ODM | 20,614 | 18.7 | 63,829 | 32.0 | 92,361 | 30.1 | 40,350 | 27.3 |
| Merry Garden 美丽家园 | — | — | 21,977 | 11.0 | 57,685 | 18.8 | 44,166 | 29.8 |
| Others | — | — | 5,133 | 2.6 | 8,524 | 2.7 | 4,563 | 3.1 |
| | <u>110,033</u> | <u>100.0</u> | <u>199,603</u> | <u>100.0</u> | <u>307,151</u> | <u>100.0</u> | <u>148,065</u> | <u>100.0</u> |

For further details, please refer to the section headed “Business” of this prospectus.

OUR PRODUCTS AND SERVICES

Our principal products are divided into (i) leisure household products; and (ii) timber villas, sheds and their related parts and structures. The following table shows the breakdown of our revenue by product categories during the Track Record Period:

| | 2009 | | Years ended 31 December 2010 | | 2011 | |
|--|----------------|--------------|---------------------------------|--------------|----------------|--------------|
| | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Leisure household products | 92,680 | 84.2 | 158,712 | 79.5 | 217,285 | 70.8 |
| Recreational products | 30,522 | 27.7 | 45,789 | 22.9 | 74,750 | 24.3 |
| Landscape garden products | 35,343 | 32.1 | 45,402 | 22.8 | 46,918 | 15.3 |
| Outdoor and indoor furniture | 6,291 | 5.7 | 41,970 | 21.0 | 64,532 | 21.0 |
| Pet-home designs | 20,524 | 18.7 | 25,551 | 12.8 | 31,085 | 10.2 |
| Timber villas, sheds and their related parts and structures | 17,353 | 15.8 | 35,758 | 17.9 | 81,342 | 26.5 |
| Others | — | — | 5,133 | 2.6 | 8,524 | 2.7 |
| | <u>110,033</u> | <u>100.0</u> | <u>199,603</u> | <u>100.0</u> | <u>307,151</u> | <u>100.0</u> |

SUMMARY

I. Leisure household products

We offer a wide range of leisure household products which can be further sub-divided into four categories:

1. Recreational products

Our recreational products focus on children's recreational and leisure activities, such as play swings, children's sand tables and outdoor rocking chairs. Our recreational products are used in public parks and private gardens and courtyards, the design of which possess multi-functional characteristics.

2. Landscape garden products

Our landscape garden products are designed for use in both public and private outdoor areas such as gardens, scenic spots, courtyards and parks. Our products under this category vary in nature and size. They include flower carts, railings and litter bins.

3. Outdoor and indoor furniture

Our outdoor and indoor furniture includes patio furniture such as tables and chairs for outdoor use, as well as indoor furniture which includes beds and cabinets. Such outdoor and indoor furniture are designed to complement our other timber-made products such as landscape garden products.

4. Pet-home designs

We produce a variety of pet-home designs each with their own unique designs. We can also custom-build these products according to our customer's specifications. Examples include bird houses, dog homes and playhouses, rabbit hutches and hamster cages, etc.

II. Timber villas, sheds and their related parts and structures

Our products under this category can be classified into timber villas, sheds, their related parts and structures and treated logs. During the Track Record Period, we recorded revenue from the sales of these products as follows:

| | Year ended 31 December | | |
|------------------------------|-------------------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Timber villas | — | 2,235 | 10,670 |
| Non-residential timber sheds | 7,223 | 5,556 | 9,967 |
| Related parts and structures | 10,130 | 22,644 | 45,461 |
| Treated logs | — | 5,323 | 15,244 |
| | <u>17,353</u> | <u>35,758</u> | <u>81,342</u> |

SUMMARY

Our timber villas are used and installed at leisure resort clubs, tourist scenic spots and parks. We design the timber villas based on our customers' requirements and our designs are endorsed by qualified design institutions prior to production. We then deliver our products in parts and arrange our staff to provide on-site installation advice to our customers or third party contractors arranged either through our customers or by us.

We also produce non-residential timber sheds for leisure or storage purposes including pavilions and gazebos, etc. The size of our non-residential timber sheds ranges from 1.6 sq. m. to 17.5 sq.m. These products are delivered in parts, which are packed together with the installation manuals and sold in set.

Furthermore, we sell self-designed or custom made related parts or structures for timber villas such as wooden frames, balconies and roofs. We usually do not offer installation services to our customers and the installation work, if any, will be carried out by our customers themselves.

Apart from our readily designed products, we also sell logs whereby we apply different production processes/treatments such as drying, coating, polishing and/or preservative treatments. Please refer to the section headed "Business" of this prospectus for further details.

SALES

The following table sets out the geographical breakdown of our sales during the Track Record Period and the four months ended 30 April 2012 (based on our unaudited management accounts):

| | Years ended 31 December | | | | | | Four months ended 30 April | |
|-------------------------------------|-------------------------|------------------|----------------|------------------|----------------|------------------|----------------------------|--------------|
| | 2009 | | 2010 | | 2011 | | 2012 | |
| | <i>RMB'000</i> | <i>% RMB'000</i> | <i>RMB'000</i> | <i>% RMB'000</i> | <i>RMB'000</i> | <i>% RMB'000</i> | <i>RMB'000</i> | <i>%</i> |
| The PRC | 37 | 0.0 | 75,787 | 38.0 | 148,956 | 48.5 | 84,182 | 56.8 |
| North America | 68,737 | 62.5 | 73,545 | 36.8 | 101,220 | 33.0 | 38,486 | 26.0 |
| Europe | 10,057 | 9.1 | 12,376 | 6.2 | 39,613 | 12.9 | 16,972 | 11.5 |
| Asia Pacific (exclusive of the PRC) | <u>31,202</u> | <u>28.4</u> | <u>37,895</u> | <u>19.0</u> | <u>17,362</u> | <u>5.6</u> | <u>8,425</u> | <u>5.7</u> |
| | <u>110,033</u> | <u>100.0</u> | <u>199,603</u> | <u>100.0</u> | <u>307,151</u> | <u>100.0</u> | <u>148,065</u> | <u>100.0</u> |

International business

We sell our products to overseas markets through OEM/ODM arrangements with our trading company customers and retail company customers. Our overseas markets cover North America, Asia Pacific (exclusive of the PRC) and Europe.

During the Track Record Period, the U.S. government initiated various anti-dumping investigations and imposed anti-dumping duties against some types of timber-made products originated from the PRC. Furthermore, other overseas governments may also impose anti-dumping duties against PRC originated products from time to time. During the Track Record Period and up to

SUMMARY

the Latest Practicable Date, we were not aware of any anti-dumping investigations or anti-dumping duties imposed against our products nor had we exported any timber-made bedroom furniture to the U.S. market or produced any timber floors which are subject to anti-dumping duties imposed by other overseas governments. Our overseas sales accounted for approximately 100.0%, 62.0% and 51.5% respectively of our total sales during the Track Record Period.

Our products sold to overseas markets are transported under free-on-board arrangements, pursuant to which the legal title, risks and rewards of our products will pass to our overseas customers when such products have passed the rail of ships appointed by our overseas customers at the exporting ports in the PRC. Nonetheless, to lessen the potential impact of the imposition of anti-dumping duties implemented by the U.S. government, our Group is reducing our reliance on the U.S. market by developing new customers in the PRC and the European market.

The PRC Market

As the levels of domestic consumer spending in the PRC have increased, we introduced our own-branded products into the PRC market in 2010 in order to explore additional revenue sources. Sales in the PRC and from our own-branded products have increased since then. The increase in our PRC sales is partly attributable to the launch of our “Merry Garden 美丽家园” branded products and partly attributable to the shift in sales orders of one of our customers from HK GHS to Xiamen GHS since 2010. In December 2011, we established and opened our first Merry Garden self-operated store in Zhangping city, Fujian Province. We plan to establish more self-operated stores from 2012 to 2014, and such development will be our additional business focus.

CUSTOMERS

The following table sets out the breakdown of our sales by sales channels during the Track Record Period and the four months ended 30 April 2012 (based on our unaudited management accounts):

| | Years ended 31 December | | | | | | Four months ended 30 April 2012 | |
|--------------------|-------------------------|--------------|----------------|--------------|----------------|--------------|---------------------------------|--------------|
| | 2009 | | 2010 | | 2011 | | 2012 | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Trading companies | 100,968 | 91.8 | 144,286 | 72.3 | 214,459 | 69.8 | 90,468 | 61.1 |
| End-user customers | — | — | 29,275 | 14.7 | 51,205 | 16.7 | 24,872 | 16.8 |
| Distributors | — | — | 12,422 | 6.2 | 25,416 | 8.3 | 26,655 | 18.0 |
| Retail companies | 9,065 | 8.2 | 13,620 | 6.8 | 15,558 | 5.1 | 3,523 | 2.4 |
| Store sales | — | — | — | 0.0 | 513 | 0.1 | 2,547 | 1.7 |
| | <u>110,033</u> | <u>100.0</u> | <u>199,603</u> | <u>100.0</u> | <u>307,151</u> | <u>100.0</u> | <u>148,065</u> | <u>100.0</u> |

Trading companies

We sell our products to trading company customers in the PRC and the international market on an OEM and ODM basis. To the best knowledge of the Directors, trading company customers will then sell our products to their customers who are mainly overseas supermarkets and retailers.

SUMMARY

Some of our “Merry Garden 美丽家园” branded products were also sold to trading company customers which then sold such products to the relevant domestic markets in the PRC. We exert no control over their further distribution of our products.

End-user customers

We sell our “Merry Garden 美丽家园” branded products and our ODM products directly to our end-user customers which are mainly located in the PRC. Our sales to our end-user customers are mainly project-based. The products they purchased are mainly used in tourist attractions, parks and municipal works projects.

Distributors

Since 2010 we have established a distribution network in the PRC in respect of our “Merry Garden 美丽家园” branded products. As at the Latest Practicable Date, we had entered into distribution agreements with nine distributors to sell our products through their own established retail sales points in Fujian Province and Shanghai, the PRC. The term of the said distribution agreements ranges from two to three years. Under the said distribution agreements, the distributors typically undertake a minimum annual purchase requirement, the breach of which shall entitle us to terminate the said distribution agreements. Further, the said distribution agreements also impose geographic limits for sale and exclusive sales arrangements upon the distributors. For further details, please refer to the section headed “Business” of this prospectus.

Retail companies

We also sell our OEM products directly to retail company customers such as retailers in Japan and Germany who possess retail sales network such as supermarkets or through on-line internet sales. These retail company customers sell our products through their own channels to end-user customers.

Store Sales

In December 2011, we established and opened our first self-operated store in Zhangping City, Fujian Province with a total gross floor area of 200 sq.m. We sell our “Merry Garden 美丽家园” branded products through this self-operated store to end-user customers. It is our plan to establish more self-operated stores from 2012 to 2014.

SUPPLIERS

Our raw materials are primarily softwoods which mainly comprise of sawn spruce boards, spruce fine-blanking boards and sanded spruce boards. We also purchase semi-finished products from our suppliers. During the Track Record Period, our timber raw materials (excluding timber-made semi-finished products) accounted for approximately 68.1%, 58.8% and 61.4% respectively of our total purchases.

SUMMARY

In addition to purchasing from the PRC market, since 2010 we have also imported raw materials from suppliers located in North America and Australia. These raw materials are primarily logs or wood-based panels. During the Track Record Period, we purchased approximately nil, RMB9.8 million and RMB27.2 million worth of raw materials from our international suppliers, representing approximately nil, 8.5%, and 16.0% of our total purchases of raw materials, respectively. For further details, please refer to the section headed “Business” of this prospectus.

ENVIRONMENTAL — INTERNATIONAL ACCREDITATIONS

Our Group takes environmental issues into account when we purchase raw materials. We have obtained accreditations from FSC and PEFC which enable us to access environmentally-sensitive markets. We purchase timber from planted forests and adopt FSC and PEFC measures in our production process.

For the production of our products carrying FSC and PEFC labels, we are required to ensure that only timber materials from FSC or PEFC certified suppliers are used. For other products, we adopt various measures to ensure the legality of our timber raw materials source and to ensure our PRC and international suppliers’ on-going compliance with the relevant environmental laws and regulations. For instance, it is our policy to conduct inspections and reviews of our suppliers’ Business Licenses (營業執照), Timber Harvest Licenses (採伐許可證), Timber Transportation Licences (木材運輸許可證), certificates of origin and official plant quarantine certificates, etc.

Although the requirement to obtain FSC or PEFC accreditations limits our choice of suppliers, such accreditations enable us to access environmentally-sensitive markets. Currently, all of our products made from FSC or PEFC certified materials are sold to our international markets. For the years ended 31 December 2009, 2010 and 2011, the sales revenue contributed by our FSC/PEFC certified products was RMB3.6 million, RMB21.6 million and RMB67.4 million which represented approximately 0.5%, 10.8% and 21.9% of our turnover respectively. For further details, please refer to the section headed “Business” of this prospectus.

CCA

Presently, many countries restrict the use of CCA that was widely used previously before ACQ-D became popular. During the Track Record Period, we only applied CCA to our products under limited circumstances upon the specific request of some of our PRC customers and all our products treated with CCA were sold to our customers in the PRC market. Our revenue derived from sales of products treated with CCA represented approximately nil, nil and 0.4% respectively of our total revenue for the years ended 31 December 2009, 2010 and 2011. According to our PRC Legal Adviser, the use of CCA is permitted in accordance with the relevant national standards in the PRC. Nonetheless, given the recent industry trend of using ACQ-D as an alternative, we do not expect to continue the use of CCA in the future.

SUMMARY

PRODUCTION FACILITIES

Our production facilities are situated in Zhangping city in south-west Fujian Province. As at the Latest Practicable Date, we had seven production lines employing a total of 401 production staff. During our production process, we apply different production processes/treatments according to the specifications for different products which include timber drying treatment, coating process and polishing process. Set out below is a table illustrating our production capacity and utilisation rates for our timber drying facilities, coating facilities and polishing facilities during the Track Record Period:

| | Years ended 31 December | | |
|---|-------------------------|-------|------|
| | 2009 | 2010 | 2011 |
| Timber drying facilities | | | |
| Maximum capacity ('000 m ³) | 41.0 | 47.3 | 68.3 |
| Utilisation rate (%) | 98.9 | 100.0 | 77.8 |
| Coating facilities | | | |
| Maximum capacity ('000 m ³) | 63.3 | 74.1 | 99.7 |
| Utilisation rate (%) | 80.2 | 91.7 | 93.2 |
| Polishing facilities | | | |
| Maximum capacity ('000 m ³) | 36.4 | 45.1 | 58.1 |
| Utilisation rate (%) | 91.8 | 93.5 | 97.1 |

During the Track Record Period, we either designed and manufactured our own products or manufactured products as per our customer's specifications and designs at our own production facilities. During the high-season for our production (i.e. in winter), we purchase some semi-finished products from other third parties. We will then further process these semi-finished products at our production facilities. Please refer to the section headed "Business" of this prospectus for more details.

OUR COMPETITIVE STRENGTHS — HIGHLIGHTS

- (i) We maintain long-term business relationships with our customers for our OEM/ODM businesses
- (ii) Our "Merry Garden 美丽家园" brand's anti-corrosive wood has been accredited as a Fujian Top Brand
- (iii) We possess competent product design capabilities
- (iv) We are a wooden leisure household products enterprise with extensive experience in wood preservation application technologies
- (v) We have been accredited with certifications by various international institutions in our industry
- (vi) We possess an experienced management team

BUSINESS STRATEGIES

- (i) Maintaining and enhancing our business relationships with our existing OEM and ODM customers and further developing our OEM and ODM networks
- (ii) Expanding our production capacity and enhancing our production efficiency
- (iii) Establishing self-operated stores in the PRC
- (iv) Increasing our corporate profile and promoting our "Merry Garden 美丽家园" brand
- (v) Enhancing our research and development and design capabilities
- (vi) Expanding our business further through merger and acquisition activities

SUMMARY

We believe the above measures, building on our competitive strengths, will allow us to increase profitability and our market share in both the overseas and the PRC markets.

SUMMARY FINANCIAL INFORMATION

Selected combined income statements and balance sheets data

| | Years ended 31 December | | |
|-------------------------------|-------------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Revenue | 110,033 | 199,603 | 307,151 |
| Gross profit | 29,457 | 71,884 | 111,904 |
| Profit before taxation | 21,973 | 63,430 | 81,077 |
| Income tax | (5,581) | (10,298) | (10,370) |
| Profit for the year | 16,392 | 53,132 | 70,707 |

The table below sets out the gross profit and gross profit margin by sales channels during the Track Record Period and up to 30 April 2012 (based on our unaudited management accounts):

| | Years ended 31 December | | | | | | Four months ended 30 April | |
|--------------------|-------------------------|--------|----------------|--------|----------------|--------|----------------------------|--------|
| | 2009 | | 2010 | | 2011 | | 2012 | |
| | Gross | | Gross | | Gross | | Gross | |
| | Gross | profit | Gross | profit | Gross | profit | Gross | Profit |
| | profit | margin | profit | margin | profit | margin | Profit | Margin |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Trading companies | 26,997 | 26.7 | 51,433 | 35.6 | 77,243 | 36.0 | 34,555 | 38.2 |
| End-user customers | — | — | 11,360 | 38.8 | 19,158 | 37.4 | 9,249 | 37.2 |
| Distributors | — | — | 4,222 | 34.0 | 10,076 | 39.6 | 11,166 | 41.9 |
| Retail companies | 2,460 | 27.1 | 4,869 | 35.7 | 5,114 | 32.9 | 1,221 | 34.7 |
| Store sales | — | — | — | — | 313 | 61.0 | 1,422 | 55.8 |
| | <u>29,457</u> | | <u>71,884</u> | | <u>111,904</u> | | <u>57,613</u> | |

SUMMARY

| | Years ended 31 December | | |
|---------------------|--------------------------------|-------------|-------------|
| | 2009 | 2010 | 2011 |
| | % | % | % |
| Gross profit margin | 26.8 | 36.0 | 36.4 |
| Net profit margin | 14.9 | 26.6 | 23.0 |

| | At 31 December | | |
|---|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Current assets | 67,987 | 132,813 | 156,209 |
| Current liabilities | 72,032 | 114,382 | 118,649 |
| Net current (liabilities)/assets | (4,045) | 18,431 | 37,560 |
| NET ASSETS | 41,883 | 74,350 | 146,594 |

Selected combined statements of cash flows data

| | Years ended 31 December | | |
|---|--------------------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Net cash generated from/(used in) operating activities | 555 | (11,826) | 61,541 |
| Net cash used in investing activities | (5,965) | (13,114) | (51,258) |
| Net cash generated from/(used in) financing activities | 5,457 | 25,279 | (4,649) |

Financial ratios

| | At 31 December | | |
|---------------|-----------------------|-------------|-------------|
| | 2009 | 2010 | 2011 |
| | % | % | % |
| Current ratio | 94.4 | 116.1 | 131.7 |
| Gearing ratio | 45.1 | 59.7 | 52.9 |

For details, please refer to the section headed “Financial Information” of this prospectus.

Latest developments relating to our Group subsequent to the Track Record Period

Subsequent to 31 December 2011 and up to the Latest Practicable Date, we continued to focus on the development of different products, and we intend to identify new OEM and ODM customers through participation in various international and PRC exhibitions and sales conventions and through placing advertisements. While we will maintain our development of the OEM and ODM businesses, we expect a higher portion of revenue to be generated from the sales of our own-branded products.

SUMMARY

Our revenue for the four months ended 30 April 2012, which is derived from our unaudited management accounts, amounted to approximately RMB148.1 million, of which RMB99.3 million was contributed by the sales of our products under ODM/OEM arrangements. We also experienced a growth in the sales of timber villas, sheds and their related parts and structures by securing over 10 new customers in 2012. Our revenue for the four months ended 30 April 2012 (based on our unaudited management accounts) from timber villas, sheds and their related parts and structures was approximately RMB54.6 million. Subsequent to 31 December 2011 and up to the Latest Practicable Date, we did not experience a significant change of pricing policy for orders secured after 31 December 2011 and our Directors did not identify any significant cancellation of orders/contracts from our customers. We confirm that, up to the date of this prospectus, there has been no material adverse change in the financial or trading position or prospects of us since 31 December 2011, and there has been no event since 31 December 2011 which would materially affect the financial information as shown in the Accountants' Report of the Company set out in Appendix I to this prospectus.

SHAREHOLDER INFORMATION

Immediately following completion of the Capitalisation Issue and the Global Offering (taking no account of Shares which may be issued pursuant to the exercise of the Over-allotment Option), Green Seas and Hong Kong Investments will be directly interested in 45.07% and 13.12% respectively of the issued share capital of our Company.

On 15 June 2012, our Group has entered into the Jiupengxi Agreement with Jiupengxi, in which Mr. Wu is a director and shareholder, whereby our Group shall sell parts and structures of timber villas to Jiupengxi for the three years ending 31 December 2014, and it is expected that the transaction amount will not exceed the annual caps of RMB8 million, RMB10 million and RMB8 million respectively. For further details, please refer to the sections headed "Relationship with Controlling Shareholders and Directors", "Connected Transactions" and "Substantial Shareholders" of this prospectus.

GLOBAL OFFERING STATISTICS AND PROFIT FORECAST

| | Based on an Offer Price of HK\$1.00 | Based on an Offer Price of HK\$1.15 |
|---|--|--|
| Market capitalisation of our Shares at Listing | HK\$1,000 million | HK\$1,150 million |
| Unaudited pro forma adjusted consolidated net tangible assets per Share ^(Note) | HK\$0.33 | HK\$0.36 |

Note: The unaudited pro forma adjusted consolidated net tangible assets per Share has been arrived at after the adjustments referred to Appendix II to this prospectus and on the basis that 1,000,000,000 Shares (taking no account of shares which may be issued pursuant to the exercise of the Over-allotment Option) will be in issue immediately following the completion of the Capitalisation Issue and the Global Offering.

SUMMARY

We forecast that, on the bases and assumptions set out in Appendix III to this prospectus and in the absence of unforeseen circumstances, the net profit attributable to owners of our Company for the six months ending 30 June 2012 is expected to be not less than RMB40.2 million. The forecast of the consolidated profit of our Company for the six months ending 30 June 2012 is based on the unaudited consolidated results of our Group based on management accounts of our Group for the four months ended 30 April 2012 and a forecast of the consolidated results of our Group for the remaining two months ending 30 June 2012. We have undertaken to the Stock Exchange that our interim financial report for the six months ending 30 June 2012 will be audited pursuant to Rule 11.18 of the Listing Rules. Our forecast consolidated profit of our Company for the six months ending 30 June 2012 shown above has been stated after deduction of such portion of the estimated offering expenses, being approximately RMB14.1 million, as we expect to be charged to our Company's consolidated statement of comprehensive income for the six months ending 30 June 2012.

The following table illustrates the sensitivity of our forecasted net profit attributable to owners of our Company for the six months ending 30 June 2012 to the changes in our sales volume, assuming that all other factors remain unchanged:

| | +/- 10% | +/- 20% | +/- 30% | +/- 40% | +/- 50% |
|---|------------------|------------------|------------------|------------------|------------------|
| | change in | change in | change in | change in | change in |
| | sales | sales | sales | sales | sales |
| | volume | volume | volume | volume | volume |
| Changes in forecasted net profit (RMB in thousand) | +/- 3,128 | +/- 6,257 | +/- 9,385 | +/- 12,513 | +/- 15,641 |

The above sensitivity analysis assumed that there will be a corresponding change in cost of sales in response to change in sales volume.

The following table illustrates the sensitivity of our forecasted net profit attributable to owners of our Company for the six months ending 30 June 2012 to the changes in the average prices for raw materials, assuming that all other factors remain unchanged:

| | +/- 10% | +/- 20% | +/- 30% | +/- 40% | +/- 50% |
|---|------------------|------------------|------------------|------------------|------------------|
| | change in | change in | change in | change in | change in |
| | average | average | average | average | average |
| | raw | raw | raw | raw | raw |
| | materials | materials | material | material | material |
| | price | price | price | price | price |
| Changes in forecasted net profit (RMB in thousand) | -/+4,334 | -/+8,668 | -/+13,002 | -/+17,336 | -/+21,670 |

The above sensitivity analysis has not considered the adjustment of selling price to respond to the raw material price fluctuation. The Directors believe the actual fluctuation will be less than the above illustration as our Group will adjust the selling price of its products when there is significant change to raw material pricing.

For details of profit forecast and bases and assumptions, please refer to the section headed "Financial Information" and Appendix III to this prospectus.

SUMMARY

DIVIDENDS POLICY

No dividends have been declared or paid by our Company since its incorporation. Subject to the factors as disclosed in “Financial Information” section of the prospectus, our Directors currently plan to pay dividends in an amount representing not less than 30% of our distributable profit attributable to Shareholders of our Company for the financial year ending 31 December 2012 following the Global Offering. Such intention does not amount to any guarantee or representation or indication that we must or will declare and pay dividends in such manner or declare and pay any dividends at all. For details, please refer to the section headed “Financial Information” of this prospectus.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$159.1 million (assuming an Offer Price of approximately HK\$1.08 per Share, being the mid-point of the indicative range of Offer Price), after deducting the underwriting fees and commissions and estimated expenses payable by us in relation to the Global Offering. Our Directors intend to apply the net proceeds from the Global Offering for the following purposes:

| Amount of proceeds (%) | Intended application of proceeds |
|-------------------------------|--|
| HK\$47.7 million (30%) | to build new manufacturing facilities and to purchase automatic machinery and equipment for the production of timber villas, sheds and their related parts and structures; |
| HK\$39.8 million (25%) | to establish own-brand self-operated stores network, including the establishment of office in Shanghai, flagship stores in selected major cities in the PRC and own-brand self-operated stores in selected major provinces in the PRC; |
| HK\$31.8 million (20%) | to achieve further growth through mergers and acquisitions of small to medium sized companies with timber processing plants, warehouse facilities and/or established distribution networks in the PRC. No target had been identified as at the Latest Practicable Date; |
| HK\$12.7 million (8%) | own-brand promotion and attending PRC and international exhibitions and sales conventions, placing billboard roadside advertisements in cities where we have points of sale and advertising through other mass media forms including the internet, newspapers, television and magazines; |
| HK\$11.2 million (7%) | to increase and enhance our research and development activities, including building additional research and development laboratories, purchasing additional and upgrading existing product testing equipment, hiring additional research personnel and furthering our cooperation with accredited research institutions, universities and individuals; |
| HK\$15.9 million (10%) | general working capital and other general corporate purposes. |

SUMMARY

For further details, please refer to the paragraph headed “Use of Proceeds” in the section headed “Future Plans and Use of Proceeds” of this prospectus.

RISK FACTORS

There are certain risks involved in our Group’s businesses and the details of such risks are set out in the section headed “Risk Factors” in this prospectus. The risks can be broadly categorised into: (i) risks relating to the business and operation of our Group; (ii) risks relating to the industry; (iii) risks relating to the PRC; and (iv) risks relating to the Share Offer. Some of the material risks relating to our business which our Directors consider appropriate include, but are not limited to:-

- Our performance is highly dependent upon the price of timber and we do not perform any form of hedging against the price fluctuation of timber.
- We may not be able to sustain growth in our revenue, profitability and gross profit margin at the current rate or at all.
- Our performance in the future is dependent upon our ability to design new products, as well as to research and develop new wood processing technologies.
- Enlarging our production facilities and increasing our production capacity will take time and may adversely affect our revenue and productivity.
- Expanding of our market shares in the PRC at the current rate or at all may become difficult due to our heavy reliance on our existing sales channels and any adverse events beyond our control.
- In the event that any of our overseas markets raises its entrance barriers or implements any trade protection measures against our products, our business operations, financial performance and results may be adversely affected.
- We intend to invest a portion of the net proceeds from the Global Offering to establish our own retail sales network, an area where we have limited experience.

You should also refer to the section headed “Risk Factors” of this prospectus for further details in respect of risks related to our business and operation, risks related to the industry, risks related to the PRC and risks related to the Share Offer.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms have the following meanings.

| | |
|---------------------------------|---|
| “Application Form(s)” | White application form(s), Yellow application form(s) and Green application form(s) or, where the context so requires, any of them |
| “Articles of Association” | the articles of association of our Company conditionally adopted pursuant to resolutions passed by our Shareholders in writing on 15 June 2012 and to become effective on the Listing Date |
| “associate(s)” | has the meaning ascribed thereto under the Listing Rules |
| “Audit Committee” | the audit committee of the Board |
| “Board” or “Board of Directors” | the board of Directors of our Company |
| “business day” | any day (other than a Saturday, and Sunday or public holidays in Hong Kong) on which banks in Hong Kong are generally open for normal banking business |
| “BVI” | the British Virgin Islands |
| “CAGR” | compound annual growth rate |
| “Capitalisation Issue” | the capitalisation of an amount of HK\$8,190,000 from the amount standing to the credit of the share premium account of our Company as set out in the paragraph headed “A. Further Information about our Group — 4. Written resolutions of our Shareholders passed on 15 June 2012” in Appendix VI to this prospectus |
| “Cayman Companies Law” | the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands |
| “CCASS” | the Central Clearing and Settlement System established and operated by HKSCC |
| “CCASS Clearing Participant” | a person admitted to participate in CCASS as a direct clearing participant or general clearing participant |
| “CCASS Custodian Participant” | a person admitted to participate in CCASS as a custodian participant |
| “CCASS Investor Participant” | a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation |

DEFINITIONS

| | |
|---------------------------------|--|
| “CCASS Participant” | a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant |
| “China” or “PRC” | the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, the Macau Special Administrative Region of China and Taiwan |
| “Circular No. 75” | the Notice on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Round-trip Investment via Overseas Special Purpose Companies (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) issued on 21 October 2005 by SAFE |
| “Companies Ordinance” | the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time |
| “Company” or “our Company” | Merry Garden Holdings Limited 美麗家園控股有限公司, a company incorporated in the Cayman Islands on 17 October 2011 as an exempted company with limited liability |
| “connected person(s)” | has the meaning ascribed to it under the Listing Rules |
| “Controlling Shareholder(s)” | has the meaning ascribed to it under the Listing Rules and in the context of this prospectus, refers to Mr. Wu, and Green Seas |
| “Covenantors” or “Indemnifiers” | Mr. Wu and Green Seas, being our Controlling Shareholders |
| “Deed of Non-Competition” | the deed of non-competition dated 15 June 2012 entered into by our Controlling Shareholders in favour of our Company, particulars of which are set out in the paragraph headed “Deed of Non-competition” under the section headed “Substantial Shareholders” in this prospectus |
| “Director(s)” | the director(s) of our Company |
| “Euro” | the lawful currency of the European Union |
| “FSC” | the Forest Stewardship Council, established in 1993, an international, non-governmental organisation dedicated to promoting responsible management of the world’s forests. The FSC runs a global certification system with two key components, forest management and chain of custody certification to enable consumers to identify, purchase and use timber and forest products from well-managed forests |

DEFINITIONS

| | |
|------------------------------------|---|
| “Fu Tak Investments” | Fu Tak Investments Group Limited (富德投資集團有限公司), a company incorporated in BVI on 16 September 2009, the entire issued share capital of which is owned by Ms. Huang Binbin (黃彬彬女士) |
| “GDP” | gross domestic product (all references to GDP growth are to real as opposed to nominal rates of growth) |
| “Global Offering” | the Hong Kong Public Offer and the International Placing |
| “Great Success” | Great Success Capital Limited (佳成資本有限公司), a company incorporated in BVI on 14 September 2011, the entire issued share capital of which is owned by Mr. Cai Shaowei (蔡紹為先生) |
| “Green Application Form(s)” | the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited |
| “Green Oceans” | Green Oceans Investment Holdings Limited, a limited liability company incorporated on 7 November 2011 in the BVI and a wholly-owned subsidiary of our Company |
| “Green Seas” | Green Seas Capital Limited, a limited liability company incorporated on 5 January 2012 in the BVI, the entire issued share capital of which is owned by Mr. Wu. Green Seas is one of our Controlling Shareholders and a connected person of the Company |
| “Group”, “we” or “us” | our Company and its subsidiaries or, where the context so requires in respect of period before our Company becomes the holding company of its present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors |
| “Haili International” | Haili International Limited (海利國際有限公司), a company incorporated in BVI on 18 August 2011, the entire issued share capital of which is owned by Mr. Ke Mingcai (柯明財先生) |
| “HK dollars” or “HK\$” and “cents” | Hong Kong dollars and cents respectively, the lawful currency for the time being of Hong Kong |
| “HK GHS” | Hongkong G.H.S. Co., Ltd. (香港德瑞華有限公司), a limited liability company incorporated in Hong Kong on 26 February 2007 |
| “HKSCC” | Hong Kong Securities Clearing Company Limited |
| “HKSCC Nominees” | HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC |

DEFINITIONS

| | |
|------------------------------------|---|
| “Hong Kong”, “HKSAR” or “HK” | the Hong Kong Special Administrative Region of the PRC |
| “Hong Kong Investments” | Hong Kong Investments Group Limited (香港投資集團有限公司), a company incorporated in the BVI on 3 January 2006, the entire issued share capital of which is owned by Mr. Cheung Chi Mang (張志猛先生) |
| “Hong Kong Offer Shares” | the 18,000,000 new Shares initially being offered for subscription under the Hong Kong Public Offer, subject to re-allocation as described in the section headed “Structure of the Global Offering” in this prospectus |
| “Hong Kong Public Offer” | the offer of the Hong Kong Offer Shares for subscription by the members of the public in Hong Kong for cash at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%), payable in full on application, and subject to the terms and conditions described in this prospectus and the Application Forms |
| “Hong Kong Share Registrar” | Computershare Hong Kong Investor Services Limited |
| “Hong Kong Underwriters” | the underwriters of the Hong Kong Public Offer listed in the paragraph headed “Hong Kong Underwriters” under the section headed “Underwriting” in this prospectus |
| “Hong Kong Underwriting Agreement” | the conditional underwriting agreement dated 22 June 2012 relating to the Hong Kong Public Offer entered into between, among others, our Company and the Hong Kong Underwriters, particulars of which are summarised in the section headed “Underwriting” in this prospectus |
| “Independent Third Party(ies)” | any individual(s) or company(ies) who or which is/are independent and not connected with (within the meaning of the Listing Rules) any Directors, chief executive or substantial Shareholders (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates, and “Independent Third Party” means any of them |
| “International Placing” | the conditional placing of the International Placing Shares at the Offer Price to selected professional, institutional and private investors as set out in the section headed “Structure of the Global Offering” in this prospectus |
| “International Placing Shares” | the 162,000,000 new Shares subject to re-allocation and the Over-allotment Option as described in the section headed “Structure of the Global Offering” in this prospectus initially being offered for subscription under the International Placing |

DEFINITIONS

| | |
|---|---|
| “International Underwriters” | the underwriters of the International Placing, who are expected to enter into the International Underwriting Agreement to underwrite the International Placing |
| “International Underwriting Agreement” | the conditional underwriting and placing agreement relating to the International Placing expected to be entered into on or about the Price Determination Date by, among others, our Company and the International Underwriters, particulars of which are summarised in the section headed “Underwriting” in this prospectus |
| “Jiupengxi” | Zhangping Jiupengxi Ecological Tourism Development Company Limited (漳平市九鵬溪生態旅游發展有限公司), a limited liability company established in the PRC on 15 April 2004, which is 89.58% owned by Mr. Wu and 10.42% owned by his mother and a connected person of the Company |
| “JJMC” | Zhangping City Jiajia Anti-Corrosion Wooden Goods Co., Ltd. (漳平市佳家防腐木材製品有限公司) |
| “King Wood” | King Wood (Hong Kong) Holding Limited, a limited liability company incorporated in Hong Kong on 5 August 2010 and an indirect wholly-owned subsidiary of our Company |
| “Latest Practicable Date” | 18 June 2012, being the latest practicable date for ascertaining certain information in this prospectus before the printing of this prospectus |
| “Listing” | the listing of the Shares on the Main Board of the Stock Exchange |
| “Listing Committee” | the Listing Committee of the Stock Exchange |
| “Listing Date” | the date, currently expected to be on or about 6 July 2012, on which dealings of our Shares on the Main Board of the Stock Exchange first commence |
| “Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time) |
| “Memorandum” or “Memorandum of Association” | the amended and restated memorandum of association of our Company adopted on 15 June 2012, as amended from time to time |
| “Merry Garden Wooden Structure” | Fujian Zhangping Kimura Merry Garden Wooden Structure Design and Installation Co. Ltd. (漳平市木村美麗家園木結構設計安裝有限公司), a limited liability company incorporated in the PRC on 12 June 2010 and an indirect wholly-owned subsidiary of our Company |

DEFINITIONS

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| “Merry Garden (Shanghai)” | Merry Garden (Shanghai) Household Co., Ltd. (美麗家園(上海)家居有限公司), a limited liability company incorporated on 24 February 2012 in the PRC and an indirect wholly-owned subsidiary of our Company |
| “Ministry of Commerce” | the Ministry of Commerce of the PRC (中華人民共和國商務部) |
| “Ministry of Finance” | the Ministry of Finance of the PRC (中華人民共和國財政部) |
| “Mr. QS Wu” | Mr. Wu Qingshan (吳青山), our executive Director and a PRC national holding 3.35% shareholding interest in our Company as at the Latest Practicable Date |
| “Mr. Wu” | Mr. Wu Zheyang (吳哲彥), our chairman, chief executive officer, executive Director, one of our Controlling Shareholders and the sole shareholder of Green Seas as at the Latest Practicable Date |
| “Ms. Xie” | Ms. Xie Qingmei (謝清美), our executive Director and a PRC national holding 0.84% shareholding interest in our Company as at the Latest Practicable Date |
| “Ms. Yan” | Ms. Yan Qiumei (嚴秋美), a PRC national holding 0.84% shareholding interest in our Company as at the Latest Practicable Date |
| “NDRC” | the National Development and Reform Commission of the People’s Republic of China (中華人民共和國國家發展和改革委員會) |
| “NPC” | the National People’s Congress of the PRC (中華人民共和國全國人民代表大會) |
| “Oceanid Investment” | Oceanid Investment Holdings Limited (海悅投資控股有限公司), a company incorporated in BVI on 6 May 2010, the entire issued share capital of which is owned by Mr. Ho Ka Chung Kevin (何家仲先生) |
| “ODM” | original design manufacturer |
| “OEM” | original equipment manufacturer |
| “Offer Price” | the final price per Share in Hong Kong dollar (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee) at which the Offer Shares are to be subscribed for and issued pursuant to the Global Offering, to be determined in the manner further described in the paragraph headed “Determination of the Offer Price” under the section headed “Structure of the Global Offering” in this prospectus |

DEFINITIONS

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| “Offer Shares” | the Hong Kong Offer Shares and the International Placing Shares together, where relevant, with any additional Shares to be issued under any exercise of the Over-allotment Option |
| “Over-allotment Option” | the option to be granted by our Company to the Sole Global Coordinator (for itself and on behalf of the International Underwriters), exercisable at any time from the Listing Date until 30 days after the last date for the lodging of applications under the Hong Kong Public Offer, to require our Company to allot and issue up to an aggregate of 27,000,000 additional new Shares, representing 15% of the initial Offer Shares, at the Offer Price per Share to cover, among other things, over-allocations in the International Placing, if any |
| “PEFC” | Programme for the Endorsement of Forest Certification, established in 1999, an international, non-governmental organisation dedicated to promoting sustainable forest management through independent third-party certification |
| “PRC Company Law” | the Company Law of the PRC (中華人民共和國公司法), enacted by the Standing Committee of the Eighth National People’s Congress on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time |
| “PRC EIT Law” | the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法), promulgated on 16 March 2007 by the National People’s Congress and effective on 1 January 2008 |
| “PRC Government” or “State” | the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof |
| “PRC Legal Adviser” | Hills & Co., the legal adviser of our Company as to PRC law |
| “Pre-IPO Investments” | pre-IPO investments made by the Pre-IPO Investors relating to the Company as described in the section headed “Company History and Reorganisation” in this prospectus |
| “Pre-IPO Investors” | Hong Kong Investments, Fu Tak Investments, Haili International, Great Success and Oceanid Investment |
| “Price Determination Agreement” | the agreement expected to be entered into between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before the Price Determination Date to record the agreement on the Offer Price |

DEFINITIONS

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| “Price Determination Date” | the date, expected to be on or around 29 June 2012, but no later than 4 July 2012, on which the Offer Price is fixed for the purpose of the Global Offering |
| “prospectus” | this prospectus being issued in connection with the Hong Kong Public Offer |
| “Reorganisation” | the reorganisation of the companies comprising our Group as set out in the section headed “Company History and Reorganisation” in this prospectus |
| “Repurchase Mandate” | the general unconditional mandate to repurchase Shares given to our Directors by the Shareholders, particulars of which are set forth in the paragraph headed “A. Further Information about our Group — 4. Written resolutions of our Shareholders passed on 15 June 2012” in Appendix VI to this prospectus |
| “RMB” or “Renminbi” | Renminbi, the lawful currency of the PRC |
| “SFC” | the Securities and Futures Commission of Hong Kong |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “Share(s)” | ordinary share(s) with a nominal value of HK\$0.01 each in the share capital of our Company |
| “Shareholder(s)” | holder(s) of the Share(s) |
| “Share Option Scheme” | the share option scheme conditionally adopted by us on 15 June 2012, the principal terms of which are summarised in the paragraph headed “D. Other Information — 1. Share Option Scheme” in Appendix VI to this prospectus |
| “Sole Global Coordinator”, “Bookrunner” or “Lead Manager” | Guotai Junan Securities (Hong Kong) Limited, a licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities |
| “Sole Sponsor” | Guotai Junan Capital Limited, a licensed corporation under the SFO to engage in type 6 (advising on corporate finance) regulated activities |
| “State Administration for Industry and Commerce” or “SAIC” | the State Administration for Industry and Commerce of the PRC (中華人民共和國工商行政管理總局) |

DEFINITIONS

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| “State Administration of Foreign Exchange” or “SAFE” | the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration, including local branches, when applicable |
| “State Administration of Taxation” or “SAT” | the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局) |
| “State Council” | the State Council of the PRC (中華人民共和國國務院) |
| “Stock Exchange” or “Hong Kong Stock Exchange” | The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited |
| “Stock Borrowing Agreement” | the stock borrowing agreement expected to be entered into between the Sole Global Coordinator, Green Seas and Mr. Wu on the Price Determination Date, particulars of which are set out in the paragraphs headed “Over-allotment Option” and “Stock Borrowing Arrangement” under the section headed “Structure of the Global Offering” in this prospectus |
| “Takeovers Code” | the Codes on Takeovers and Mergers and Share Repurchases issued by the SFC, as amended, supplemented or otherwise modified from time to time |
| “Track Record Period” | the three years ended 31 December 2011 |
| “Underwriters” | collectively, the Hong Kong Underwriters and the International Underwriters, details of which are set out in the section headed “Underwriting” in this prospectus |
| “Underwriting Agreements” | the Hong Kong Underwriting Agreement and the International Underwriting Agreement |
| “United States” or “U.S.” | the United States of America |
| “US dollars” or “US\$” | United States dollars, the lawful currency of the United States |
| “VAT” | value added tax |
| “White Application Form(s)” | the application form(s) to be completed in accordance with the instructions in the paragraph headed “1. Channels to Apply for the Hong Kong Offer Shares” under the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus |
| “White Form eIPO” | the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO www.eipo.com.hk |

DEFINITIONS

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| “White Form eIPO Service Provider” | Computershare Hong Kong Investor Services Limited |
| “Xiamen GHS” | Xiamen GHS Import and Export Co., Ltd. (廈門德瑞華進出口有限公司), a limited liability company established in the PRC on 31 May 2006 |
| “Yellow Application Form(s)” | the application form(s) to be completed in accordance with the instructions in the paragraph headed “1. Channels to Apply for the Hong Kong Offer Shares” under the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus |
| “Zhangping Kimura” | Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司), a limited liability company incorporated on 17 December 1995 in the PRC and an indirect wholly-owned subsidiary of our Company |
| “ZhongAn Consultant” | Zhongan Shengye Investment Consultant (Beijing) Company Limited (中安盛業投資諮詢(北京)有限公司), an independent market research company |
| “%” | per cent |

In this prospectus, unless otherwise stated, certain amounts denominated in Renminbi have been translated into HK dollars at an exchange rate of RMB0.8107 = HK\$1.00, respectively, for illustration purpose only. Such translations should not be construed as representations that amounts in Renminbi were or may have been converted into HK dollars at such rates or any other exchange rates.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustment. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

The term “subsidiary” has the meaning given to such term under the Listing Rules, unless the context otherwise requires.

For ease of reference, the names of the PRC established companies or entities, laws or regulations have been included in this prospectus in both the Chinese and English languages and in the event of any inconsistency between the Chinese names of the PRC entities mentioned in this prospectus and their English translations, the Chinese names shall prevail.

Unless otherwise specified, all references to any shareholding in our Company assume no exercise of the Over-allotment Option.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain terms used in this prospectus as they relate to our Company and as they are used in this prospectus in connection with our business or us. These terms and their given meanings may not correspond to standard industry definitions.

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| “ACQ-D” | Alkaline copper quaternary type D, a wood preservative made of copper, a fungicide, a quaternary ammonium compound and an insecticide |
| “CCA” | Chromated copper arsenate, a wood preservative made of a mix of chromium, copper and arsenic. It preserves wood from fungi, insects and improves the weather-resistance of treated timber, and may assist paint adherence. |
| “Fibre board(s)” | type of engineered wood manufactured by a wet process by reducing wood raw materials to chips. These are then treated by steam under pressure and additives added to the pulp. The slurry is then passed to a forming machine where it is felted and mechanically de-watered. Felting and bonding resulting from the natural resin present in the wood raw material produce the strength of the board. A small amount of resin is added to increase strength and the board is then cut into strips and transferred to drying ovens |
| “Fire-retardant wood” or “FRW” | treated wood chars that do not oxidise creating a convective layer that transfers flame heat to the wood in a uniform way which acts to significantly slow down the spread of fire |
| “Heat-treated thermo-modified wood” | Wood modified through heat treatment in controlled atmosphere as a soft pyrolysis reaction |
| “Pine” | trees in the genus <i>Pinus</i> |
| “Softwood” | wood from trees that are of seed-bearing plants which includes conifers |
| “Spruce” | trees of the genus <i>Picea</i> , a genus of about 35 species of coniferous evergreen trees in the Family Pinaceae, found in the Northern temperate and boreal (taiga) regions |
| “Wood preservation” | chemical and/or physical measures that are taken to improve the durability of wood or wooden products and resistance from being destroyed by insects or fungus |

FORWARD LOOKING STATEMENT

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and our various measures to implement such strategies;
- our dividend distribution plans;
- our operations and business prospects, including our development plans for our existing and new businesses;
- our ability and expected timetable to complete our project developments;
- our capital commitment plans, particularly plans relating to acquisition of new businesses;
- our financial condition;
- our capital expenditure plans and our expectations of the cost of development of our new projects;
- the regulatory environment in the PRC; and
- future developments and the competitive environment in the cement industries.

The words “anticipate”, “believe”, “continue”, “could”, “expect”, “intend”, “may”, “plan”, “potential”, “predict”, “project”, “seek”, “should”, “will”, “would” and the negatives of these terms and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements.

Should one or more of the risks or uncertainties materialise, or should underlying assumptions prove to be incorrect, our financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed, estimated or expected.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or developments or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

In this prospectus, statements of or references to our intentions or that of any of our Directors are made as of the date of this prospectus. Any such intentions may change in light of future developments.

RISK FACTORS

Investing in the Shares involves certain risks. You should carefully consider each of the risks described below and all of the information set out in this prospectus, including the accountants' report set out in Appendix I to this prospectus, before deciding to purchase the Shares. You should pay particular attention to the fact that most of our Company's operations are conducted in the PRC and are governed by a legal and regulatory environment that in some respects differs from those that prevail in other countries. If any of the possible events described below occurs, our business, financial condition or results of operations could be materially and adversely affected.

RISKS RELATING TO THE BUSINESS AND OPERATIONS OF OUR GROUP

We are heavily dependent on the supply of key raw materials. In the event of any severe adverse weather conditions or catastrophic events such as forest fires, it may cause a disruption in the logging of timber and result in a shortage of supply of softwood that is required for the production of our timber products, and our operation and revenue may be adversely affected as a result

We do not participate in any business operating in the upstream supply of timber, as such, we are heavily dependent on the availability of suppliers for raw materials, in particular timber, for use in our production. As part of our long term strategy, we plan to enter into long-term supply agreements with timber and/or softwood suppliers. However, such cooperation is subject to negotiations and risk-reward trade-offs, and we may or may not enter into such agreements.

In addition, any severe adverse weather conditions or catastrophic events such as forest fires may stall logging activities, disrupt the supply of timber and cause timber prices to fluctuate significantly. There are no assurances that in such circumstances, we will be able to secure a stable supply of raw materials. In such cases, our production and our operations may be negatively impacted.

We may not be able to sustain growth in our revenue, profitability and gross profit margin at the current rate or at all

Our turnover increased from approximately RMB110.0 million for the year ended 31 December 2009 to approximately RMB199.6 million for the year ended 31 December 2010, and further to approximately RMB307.2 million for the year ended 31 December 2011 at a CAGR of 67.1%. The market for our products is fragmented and we do not have a dominant share in it. We may not be able to expand our business as planned in such a highly competitive market in the manner as mentioned under the section headed "Future Plans and Use of Proceeds" in this prospectus. Although we intend to expand our own retail sales network, there are no assurances that the demand for our products will remain at existing levels; and the revenue, the gross profit margin and hence the growth of our Group will not decrease in the future. Our gross profit margins was approximately 26.8%, 36.0% and 36.4% for the years ended 31 December 2009, 2010 and 2011, respectively. If our revenue and gross profit margin fall due to a downturn in the markets and we are unable to commercialise any new products with sales volumes and/or gross profit margins at existing levels, our profitability and financial position may be adversely affected.

Our performance in the future is dependent upon our ability to design new products, as well as to research and develop new wood processing technologies

Our future performance depends on our ability to design new products, as well as to research and develop new wood processing technologies. There are no assurances that we may be able to design

RISK FACTORS

new products that are well-received by the market place. Nor can we be assured that our research and development efforts in certain areas of wood science will produce positive results in order that we can apply them commercially to our products. Moreover, there can be no assurances that any research and development projects we undertake will be commercially viable. Failure to design new products and unsuccessful research and development could adversely affect our performance and our ability to compete.

Enlarging our production facilities and increasing our production capacity will take time and may adversely affect our revenue and productivity

In an effort to increase our production capacity, we intend to enlarge our production facilities at our production base in Zhangping city of Fujian province. This requires purchasing new equipment, building production lines and employing skilled labourers. The period of time needed to train new workers and prepare the new production lines to meet requisite levels of quality may take longer than expected. There are no assurances that the new production facilities will commence production as scheduled. In the event that our Group's production facilities cannot cope with the demand, its revenue and productivity may be adversely affected.

Expanding of our market share in the PRC at the current rate or at all may become difficult due to our heavy reliance on our existing sales channels and any adverse events beyond our control

Whilst our Group has experienced a rapid expansion in the PRC, where our revenue derived from the PRC market increased from approximately RMB0.04 million for the year ended 31 December 2009 to approximately RMB75.8 million for the year ended 31 December 2010, then to approximately RMB149.0 million for the year ended 31 December 2011 respectively, we rely to a large extent on our established PRC sales channels to sell our products. There are no assurances that our existing established sales channels will continue to help us to expand our market share. In addition, there are no assurances that we will continue to establish relationships with new customers to sell our products. As our domestic expansion requires additional management, financial and human resources, there are no assurances that we will be able to replicate the success of establishing and operating sales channels in new regions of the domestic market in the PRC. Further, for some of our timber products, particularly with respect to our timber villas product category, third parties are usually engaged to carry out the installation works for our end-user customers. Therefore, any inadequacy or inconsistency in the craftsmanship of such third parties may expose our products to product liability or other litigation risks. This in turn may potentially impair our brand's reputation and image in the PRC. Therefore, if our expansion plans turn out to be unsuccessful or the said third party installation companies commit any default, our Group's financial result and growth rate may be adversely affected.

We are heavily dependent on the availability of sales orders from our customers. In the event of any decrease in or termination of sales orders, our revenue may be adversely affected as a result

Our sales to our customers are usually conducted on an order basis. As part of our long term strategy, we plan to enter into long-term sales agreements with our customers. However, such cooperation is subject to negotiations and risk-reward trade-offs, and we may or may not enter into such agreements. There are no assurances that we will be able to maintain and secure the same and/or more sales orders from our customers. In such an event, our revenue may be negatively impacted.

RISK FACTORS

We intend to invest a portion of the net proceeds from the Global Offering to establish our own retail sales network, an area where we have limited experience

We currently do not operate our own retail sales network apart from our first self-operated store which was opened in Zhangping city, Fujian Province in December 2011. Most of our products are sold to our customers, including distributors, trading companies and retail companies, on a wholesale basis. Our customers in turn retail or sell our products to end consumers through their retail shops and/or distribution channels. As part of our future business expansion plan, we intend to establish our own retail sales network by utilising approximately HK\$39.8 million, which represents approximately 25% of the total amount of the net proceeds from the Global Offering based on the mid-point of the indicative Offer Price range.

As we have limited experience in managing and operating our own retail sales network, this may divert time and attention of our management from other business activities. We may have difficulties integrating our own retail sales network into our workflow and work force. We may also encounter difficulties in recruiting qualified and experienced personnel to operate and manage our own retail sales network. We may also encounter difficulties locating retail stores in locations we consider appropriate or at rental levels similar as we planned. In addition, given the cost structure of operating our own retail sales network it is likely to be different from that of our current business model and will require additional working capital for retail store rental expenses, staff costs, advertising costs, etc., our profit margin may be adversely affected by the maintenance and operation of our own retail sales network. In any of these events, our business and results of operations may be adversely affected, and the portion of the net proceeds from the Global Offering invested in establishing our own retail sales network may not bring us the anticipated benefits.

We have limited control over our distributor customers

Since 2010 we have engaged certain distributors in the PRC as one of our sales channels. The revenue contributed by our distributor customers in 2010 and 2011 amounted to 6.2% and 8.3% of our total revenue, respectively. Whilst we have entered into distribution agreements range from two-year to three-year terms with our distributor customers respectively, we have no assurances that we will be able to renew the distribution agreements with these customers on mutually acceptable terms and we have limited control over them. For instance, we have no direct control over the customers to whom our distributor customers sell our products on to and we rely upon our distributor customers to ensure compliance with the terms set out in the respective distribution agreements entered into with them. Should our distribution customers fail to or be unable to ensure compliance with the terms of the distribution agreements entered into, our financial performance and results may be adversely affected.

In addition, these respective distribution agreements contain minimum purchase requirements clauses. Our distributor customers may accumulate excessive inventory in order to fulfill such requirements. Given that we do not accept the return of unsold goods, our distributor customers may sell our products at excessive discounts to reduce their inventory which would be detrimental to the image of our own-brand. On the other hand, should the market demand decrease sharply, distributor customers will not be able to meet their minimum purchase requirements. In such event, our sales performance and financial results may be adversely affected.

RISK FACTORS

Our performance is highly dependent upon the price of timber and we do not perform any form of hedging against the price fluctuation of timber

Our performance is highly dependent upon the price of timber, as cost of timber raw materials (excluding timber-made semi-finished products) accounts for approximately 68.1%, 58.8%, and 61.4% respectively, of our total purchases in the years ended 31 December 2009, 2010 and 2011. These prices are historically subject to fluctuations and are affected by numerous factors beyond our control such as the level of demand and supply in Fujian province and neighbouring provinces, the availability and costs of substitutes, the inventory levels maintained by others, and the growth rate of the construction industry. Spruce and pinewoods, which are two types of softwoods, are our key raw materials. We procure the timber raw materials in the form of raw timber logs and sawn timbers boards. Set out below is a table illustrating the average price of our key timber materials for the years ended 31 December 2009, 2010 and 2011:

| | 2009 | 2010 | 2011 |
|-----------------------------|--------------------------|--------------------------|--------------------------|
| | <i>Average</i> | <i>Average</i> | <i>Average</i> |
| | <i>timber price</i> | <i>timber price</i> | <i>timber price</i> |
| | <i>RMB/m³</i> | <i>RMB/m³</i> | <i>RMB/m³</i> |
| Raw spruce logs | 633 | 828 | 796 |
| Sawn spruce boards | 1,140 | 1,329 | 1,604 |
| Spruce fine-blanking boards | 1,761 | 2,278 | 2,312 |
| Sanded spruce boards | 1,924 | 1,901 | 2,171 |
| Pinewood boards | — | 1,540 | 1,671 |
| Spruce (fir) boards | — | — | 1,520 |

We do not perform any form of hedging against the price fluctuation of timber. There are no assurances that the prices of timber will not fluctuate materially in the future and that we will be able to pass on any increased cost of raw materials to our customers. In the event of a prolonged period of price hikes in the supply of softwood, the price of softwood at unusually high prices will drive up our cost of sales and if we are unable to pass on this increase in the cost of raw materials to our customers and distributors, it may have an adverse effect on our financial condition and operating results.

Our success depends on the expertise of our management team and our research team

Our continued success is to a large extent dependent upon our management team, in particular our director Mr. Wu, as they possess the requisite expertise, management skills and industry knowledge in leading our Group in extending our current market position, expanding our production capacity and maintaining growth in profitability. Our management team brings along a unique combination of work experience and industry knowledge in areas such as marketing, sales, finance and the timber products industry. We have entered into service agreements with each of our directors and management team for an initial term of three years commencing from the Listing Date. However, if any member of the management team ceases to be involved in the management of our Group in the future and we fail to find or employ other suitable candidates to replace them, our operations, profitability and prospects may be negatively impacted.

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We also rely on the continued service of our key employees and cooperation with external professionals for research and development of new products. There can be no assurances that we are able to maintain these key research employees and cooperation with external professionals in future. In case we lose such services of these key employees and/or professionals, our business may be adversely affected.

We experienced net cash outflow from operating activities for the year ended 31 December 2010

We had net cash outflow from our operating activities of approximately RMB11.8 million for the year ended 31 December 2010 primarily due to an increase in trade and other receivables as a result of longer credit period granted to domestic customers. We cannot be assured that we will not continue to experience periods of net cash outflow from operating activities in the future. If we are unable to finance our operations continuously from funds generated from operating activities, our operations and financial position could be materially and adversely affected.

We experienced net current liabilities during the Track Record Period

As of 31 December 2009, 2010 and 2011, we had net current liabilities of approximately RMB4.0 million, net current assets of approximately RMB18.4 million and RMB37.6 million, respectively. Our net current liability position in 2009 primarily reflected our reliance on bank loans to finance our purchase of property, plant and equipment for the year ended 31 December 2009.

As at the Latest Practicable Date, we had not experienced any liquidity problems in settling our payables in the ordinary course of business when they fall due. However, if we fail to secure sufficient cash flow from our operations or external financing to fund our working capital and capital expenditure required for our expansion plans, our production capacity expansion plans may be adversely affected or curtailed.

In addition, obtaining additional external financing may require us to sell additional equity or debt securities or obtain additional bank loans. The sale of additional equity or convertible debt securities could result in dilution of our Shareholders' equity interests and the incurrence of additional indebtedness would result in increased fixed obligations and could result in operating covenants that restrict our operations. Furthermore, we cannot be assured that financing will be available in the amounts or on terms acceptable to us, such as significant increase in interest rate, if at all.

Infringement of intellectual property rights may have a negative impact to our operations and financial results

In order to protect the designs of our own-branded products, our trademarks, patents and similar intellectual property rights are critical to our success. We have obtained or applied for registration of trademarks and patents on various products and designs as set out in the sub-paragraph headed "Intellectual Properties Right of Our Group" under the paragraph headed "Further information about our business" in Appendix VI to this prospectus. However, there may be occasions where our intellectual property rights are infringed and we have to initiate litigation and other legal actions to enforce our intellectual property rights effectively. This can result in incurring substantial legal costs and diversion of our financial and management resources. Moreover, there are no assurances that the trademarks, patents and similar intellectual property rights of our Group will not be infringed in the future. In addition, litigation may be necessary in the future to enforce our Group's intellectual property rights or determine the validity and scope of the proprietary rights of others. Furthermore,

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third parties may claim that our procedures or processes have infringed upon their proprietary rights. Defending against infringement claims pursued by third parties, whether with or without merit, or asserting claims against third parties could be time consuming, divert management attention and resources, result in costly litigation or damages, undermine our brand value, reduce sales and/or require us to enter into royalty or licensing agreements that may not be on acceptable terms. All these could result in substantial costs and diversion of our financial and management resources, as a result of which, may have a negative impact on our operations and financial results.

We are subject to certain risks associated with transportation and warehousing of our raw materials and products

Since our production facilities are located in Zhangping City in Fujian Province and our customers are located in a number of different provinces in the PRC as well as overseas, having a reliable transportation network is crucial to deliver our timber products on time. However, unforeseen events that are beyond our control such as transportation bottlenecks, natural disasters or labour strikes may occur during the delivery process from our production facilities to our distributors or customers and could potentially disrupt available transportation networks. In addition, any poor handling by our carriers or distributors may damage our finished products. If our finished products are not delivered to our distributors and customers on time or are damaged before reaching our end-user customers, our market reputation and profitability may be materially and adversely affected, not to mention potential litigation may arise out of our failure to deliver in accordance with relevant agreements.

Furthermore, our raw materials and finished products are stored in our warehouses before they go into the production process or the delivery process. If accidents occur such as flooding or fire, and the raw materials and finished products are damaged, we may be unable to supply products to our distributors and customers on time. The foregoing would adversely affect our reputation and results of our operations.

We are subject to technological changes in the industry

The wood preservatives used in our production process are subject to technological advances. Presently, many countries restrict the use of CCA that was widely used previously before ACQ-D became popular because the arsenic and chrome contained in CCA may be harmful to personal health and environment. Our revenue derived from sales of products treated with CCA represented approximately nil, nil and 0.4% of our total revenue for the years ended 31 December 2009, 2010 and 2011, respectively. In 2002, we started using ACQ-D to treat our timber products.

If the use of ACQ-D is found to be harmful to the environment or unsafe, or if due to technological advances, the use of ACQ-D becomes obsolete, we will have to adapt promptly to ensure our market position in the timber products industry is secured. Thus, our success will depend on our ability to keep abreast of technological advances and government regulations and restrictions and to adapt our business strategy to effectively adopt and employ different requirements and technological advances.

RISK FACTORS

In dealing with technological advances, we had devoted our management, financial resources as well as 37 employees into our research and development programs as at the Latest Practicable Date. There are no assurances that we can promptly respond or deal with these changes and manage the costs of such adaptation effectively. If we are unable to compete with our competitors' new products or improve our own products in line with rapid technological developments, whether due to financial or technical reasons, our business and operational results may be adversely affected.

We are subject to extensive and increasingly stringent environmental regulations

Our products and our production process are subject to extensive and increasingly stringent environmental protection laws and regulations in the PRC. Raw material selection, aspects of our production process, to the emission or discharge of pollutants or wastes into the soil, water and atmosphere, are regulated by the PRC government. In addition, the relevant environmental regulations also regulate the standards that our own-branded products must meet, in terms of the maximum content of certain chemicals. At present, these laws and regulations impose fines and penalties for violations; require certain licenses and permits for the engagement of certain activities; and empower relevant government authorities to suspend operations that cause damage to the environment.

We control the degree of use of chemical preservatives in our raw materials. However, continuing to comply with these environmental rules and regulations may impose a burden on our financial resources as additional processes and quality control measures will need to be put in place. Additionally, if we fail to comply with future environmental laws and regulations, we may be required to pay penalties or take corrective actions and the resulting negative publicity may increase our financial burden and damage our reputation and our brand's image, any of which may have a material and adverse effect on our results of operations and/or financial condition.

Labour issues such as shortage of labour, increase in staff costs and labour disputes may potentially have an adverse effect on our business and results of operations

Human resources are one of the key resources for the success in our operations. As at the Latest Practicable Date, we had a total of 592 employees. Staff costs amounted to approximately RMB8.5 million, RMB12.0 million and RMB19.4 million respectively in the years ended 31 December 2009, 2010 and 2011. There have been instances in certain regions of the PRC where labour markets suffer from shortage of labour, increased labour costs and more stringent regulatory requirements on labour protection. There are no assurances that we will not experience any shortage of labour, increased labour costs or labour disputes against us or that we will be able to comply with all relevant regulations or requirements. Any such incidents may incur additional costs, result in production delays, damage our reputation and/or disrupt our operations.

We do not implement any measure to monitor the service quality of our overseas customers

In respect of our overseas business, we do not enter into any agreements to govern the general responsibilities and obligations between our Group and its overseas customers. In addition, we do not implement any measures to monitor the service quality of our overseas customers. In the event that our overseas customers are unable to deliver satisfactory service quality to end-user customers, the reputation of our Group's branded products may be adversely affected.

RISK FACTORS

We are susceptible to credit risks of our customers which may adversely affect our results of operations and financial condition

We offer most of our major distributors and customers credit terms ranging from 15 to 60 days for international customers and 30 to 90 days for customers in the PRC. As at 31 December 2009, 2010 and 2011, our trade receivables amounted to approximately RMB8.9 million, RMB43.6 million and RMB81.9 million, respectively. During the Track Record Period, our average trade receivable turnover days increased from 30 days in 2009 to 69 days in 2011. This increasing trend is mainly caused by the growth in our sales and the increase in proportion of our sales to PRC customers who are granted longer credit terms. Our Group has not recognised any impairments for doubtful debts for the years ended 31 December 2009, 2010 and 2011. However, there are no assurances that we will be able to fully recover our Group's receivables from our distributors or customers, or that they will be settled on a timely basis. In the event that settlements from our customers are not made in full or on a timely basis, our profitability, cash flow and financial position may be adversely affected.

Global financial markets have experienced significant deterioration and volatility recently which have had negative repercussions on the global economy and, as a result, may adversely affect our business operations

Certain recent adverse financial developments have impacted the global financial markets. These developments include a general slowing of economic growth in the U.S., Europe and globally, substantial volatility in equity securities markets, and volatility and tightening of liquidity in credit markets. While it is difficult to predict how long these conditions will exist and which markets and businesses of our Group may be affected, these developments could continue to present risks for an extended period of time for our Group, including a potential slowdown in our sales to customers, potential increase in interest expenses on our bank borrowings, or potential reduction of the amount of banking facilities currently available to us. If this economic downturn continues, our business, financial condition and results of operations may be adversely affected.

Macroeconomic factors such as consumer confidence and spending levels, unemployment, consumer credit availability, raw materials costs, fuel and energy costs, global factory production, commercial real estate market conditions, credit market conditions and the level of customer traffic in malls and shopping centres may affect our results. In addition, demand for our products, and consumer spending is significantly impacted by trends in consumer confidence, general business conditions, interest rates, the availability of consumer credit, and taxation. Consumer purchases of our products tend to decline during recessionary periods, when disposable income is lower. The general economic conditions in the economy may continue to affect consumer purchases of our products for the foreseeable future and adversely impact our results of operations.

Any significant product liability claims made against us, whether successful or not, could harm our business, results of operations and financial condition

We do not maintain any insurance to cover product liability risks in the PRC or its exporting markets. Pursuant to 中華人民共和國產品質量法 (Product Quality Law of the PRC), we may be subject to product liability claims in the event that any of its products is alleged to have caused any personal injury or other adverse effects. In addition, 中華人民共和國消費者權益保護法 (Law of the PRC on the Protection of the Rights and Interests of Consumers) protects the rights of consumers in respect of the safety of person and property in the purchase and use of goods and services.

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As advised by our PRC Legal Adviser, product liability insurance is not compulsory under PRC law. As such, we do not maintain insurance to cover the related product liability risks. To the best of our Directors' knowledge, any product liability claims brought by end-user customers in our overseas markets would be handled by our overseas customers locally. However, there are no assurances that our Group would not be named as a defendant in any lawsuit or proceeding brought by the end consumer in respect of any product liability claims. Furthermore, if our Group's relevant overseas customers can prove that the product quality deficiency which gives rise to the product liability claim is caused by our Group, the relevant overseas customer may claim against our Group. Up to the Latest Practicable Date, our Group had not received any claims from its overseas customers against it in respect of product liability. In the event that our Group is held liable for any material losses or damages in respect of any product liability claims, the results of operations and financial performance of our Group may be adversely affected.

We are subject to currency conversion and exchange rate risk

Our Group earns revenues in Renminbi, U.S dollars, and Euro and incurs costs and expenses mainly in Renminbi. For the years ended 31 December 2009, 2010 and 2011, approximately 0.03%, 38.9% and 48.5% of our Group's sales was denominated in Renminbi respectively, approximately 81.2%, 52.4% and 51.4% was denominated in U.S. dollars respectively, and approximately 18.8%, 8.7% and 0.1% was denominated in Euros respectively.

Our manufacturing operations are based in the PRC and its costs of sales are mainly denominated in Renminbi. The availability of hedge instruments is limited in the PRC. Despite our Group having entered into several foreign exchange forward contracts during the Track Record Period to hedge U.S. dollars and Euro against RMB, we cannot entirely eliminate the said exchange rate risks. Moreover, after Listing, our Group will maintain bank accounts for the deposit of IPO proceeds in Hong Kong dollars and for the payment of dividends will also be stated in Hong Kong dollars. At present, Renminbi is not freely convertible with other currencies. There are no assurances that our Group will obtain sufficient foreign exchange for payment of dividends or other settlements in foreign exchange. Furthermore, our Group's profitability may be adversely affected as a result of fluctuations in the exchange rates between the currencies in which our Group's purchases, expenditures and sales are respectively denominated.

Our non-compliance with relevant social insurance and housing provident fund contribution laws and regulations in the PRC might lead to the imposition of fines and penalties

According to the relevant PRC laws and regulations, we are required to make contributions to certain employee social welfare schemes. The relevant schemes include social security contributions (including basic endowment insurance, unemployment insurance, basic medical insurance, work injury insurance and maternity insurance) and housing provident fund contributions. During the Track Record Period, we did not fully comply with the social security and housing provident fund contribution requirements for our employees since some employees had no intention to participate in the social security and housing provident fund schemes as they either do not want to bear certain part of the social insurance premiums and housing provident fund contributions or have made contributions to the rural social insurance. We estimate that the aggregate unpaid amount by our Group to the social insurance authority for the years of 2009, 2010 and 2011 was approximately RMB0.7 million, RMB1.8 million, RMB3.3 million, respectively, and the aggregate unpaid amount by our Group to the housing provident fund management centre for the years of 2009, 2010 and 2011 was approximately RMB0.2 million, RMB0.5 million, RMB0.7 million, respectively.

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According to the relevant PRC laws and regulations, in respect of social insurance contributions, prior to the implementation of the Social Insurance Law of the People's Republic of China (中華人民共和國社會保險法) which came into force on 1 July 2011, under the PRC laws a fine ranging from RMB1,000 to RMB5,000, or a fine ranging from RMB5,000 to RMB10,000 in case of severe breach, will be imposed on the management and the persons with direct responsibilities of our Group for the non-compliances occurred before 1 July 2011. The social insurance authorities are also entitled to order us to pay the outstanding social insurance within a time limit or immediately. In addition, the social insurance authorities are entitled to impose on us a surcharge at the rate of 0.05% for each day as well as a fine ranging from one to three times of the outstanding amount for work-related injury insurance; and the surcharge for the other four types of social insurance (i.e. the endowment insurance, the unemployment insurance the medical insurance and the maternity insurance) will be imposed at the rate of 0.2% for each day if our Group fails to rectify the breach of social insurance contributions. According to the PRC Social Insurance Law, for the delay and short payment after 1 July 2011, we might be ordered to pay the outstanding social insurance by the social insurance authorities, and be imposed of a late charge of 0.05% and a fine ranging from one to three times of the outstanding social insurance. In respect of housing fund contributions, we might be ordered to register the aforementioned employees with the housing fund authority within a prescribed time limit by the relevant housing fund authority. If we fail to do so within such prescribed time limit, a fine in the range of RMB10,000 to RMB50,000 might be imposed on us.

Our non-compliance with environmental protection laws and regulations in the past in the PRC may lead to the impositions of fines

According to the relevant PRC laws and regulations, our Group shall process the procedure for completion inspection and acceptance and obtain the Permits to Discharge Pollution for the construction projects of Zhangping Kimura. We did not obtain the Acceptance Opinion (驗收意見) and the Permits to Discharge Pollutant for the Construction Projects of Zhangping Kimura until 20 January 2012 and 27 February 2012 respectively; and we have commenced production and discharged pollutants at our respective production plants for Zhangping Kimura before we obtained the Acceptance Opinion (驗收意見) and the Permits to Discharge Pollutant. Our PRC Legal Adviser has advised that as a result of the breach of the Administrative Regulations of Environmental Protection for Building Projects and the Administrative Regulations of Environmental Protection for Completion and Acceptance of Construction Projects, we might be subject to the order imposed by the relevant environmental protection authority to cease production or stop using the production plants, as well as a fine of not more than RMB100,000 for not obtaining the Acceptance Opinion (驗收意見). As a result of the breach of the Environmental Protection Regulations of Fujian Province, the Environmental protection authorities might also impose a fine of not more than RMB50,000 on us for not obtaining the Permits to Discharge Pollutant in time.

Our non-compliance with relevant construction laws and regulations in the PRC may lead to the impositions of fines

According to the relevant PRC laws and regulations, Zhangping Kimura shall obtain the "Construction Land Use Planning Permit", the "Planning Permit for Construction Works" and/or the "Construction Works Commencement Permit" for plants constructed on part of the land held by it. During the Track Record Period, since plants constructed on part of the land held by our Group were constructed more than 10 years ago, our Company was not informed that we needed to procure relevant construction certificates at that time, therefore, Zhangping Kimura did not obtain the above-mentioned permits. Under the "Urban and Rural Planning Law of the PRC" (hereinafter referred

RISK FACTORS

to “Urban and Rural Planning Law”), if the right to use state-owned land for a construction project is obtained by assignment, the construction entity shall, after concluding the contract for assignment of the right to use state-owned land, obtain the Construction Land Use Planning Permit from the competent department of urban and rural planning upon the approval, or verification or archive-filing documents of the project as well as the contract for assignment of the right to use state-owned land. Where a construction entity without the Construction Land Use Planning Permit is approved to use the land, the people’s government at or above the county level shall cancel the approval document; if any land has been occupied, such land shall be returned promptly; and if any damage has been caused to a party concerned, compensations shall be made according to law. Under the “Urban and Rural Planning Law”, to build any structure, fixture, road, pipeline or other engineering project within a city or town planning area, the construction entity or individual shall apply to the competent department of urban and rural planning for a Planning Permit for Construction Works. If a construction project is proceeded without obtaining the planning permit on construction works or by violating the provisions of the planning permit for construction works, the competent department of urban and rural planning of the local people’s government at or above the county level shall order it to stop construction. If it is still possible for the construction entity or individual to take measures to eliminate the impact on the implementation of urban and rural planning, the department shall order it or him to correct within a certain time limit and impose a fine of not less than 5% of the construction cost but not more than 10% of the cost; if it is impossible to take measures to eliminate the impact, the department shall order the construction entity or individual to dismantle the building or structure within a certain time limit and confiscate the real objects or the illegal gain, and may also impose a fine not more than 10% the construction cost. Under the “Construction Law of the PRC” (hereinafter referred to “Construction Law”), before the start of construction projects, construction units shall apply to the competent construction administrative departments for Construction Works Commencement Permit. Construction enterprises, which act in violation of the aforesaid stipulations to start construction operation without Construction Works Commencement Permit or at the time when the application for construction operation has not yet been approved, shall be ordered to correct themselves. Construction enterprises of which construction project cannot meet the requirement for starting operation shall be ordered to stop construction operation and may be imposed fine penalties. However, the law has not expressly stipulated the amount of penalties. According to our Company’s confirmation the construction fees for such plants are about RMB4.5 million, therefore the maximum penalty that may be imposed on our Group is anticipated to be approximately RMB0.5 million.

Zhangping Kimura, our Group’s major operating subsidiary in the PRC, may not be able to renew its accreditation as high and new technology enterprise in the future, which will make Zhangping Kimura unable to enjoy various benefits associated with such accreditation, including the preferential income tax treatment

Our subsidiary, Zhangping Kimura is accredited as a High and New Technology enterprise in October 2010 for an initial period of 3-years for the financial years 2010, 2011 and 2012. Under the PRC EIT Law and its relevant regulations, High and New Technology enterprises are conferred with a preferential income tax rate of 15% (reduced from the unified enterprise income tax rate of 25% under the PRC EIT Law). Zhangping Kimura is awarded High and New Technology enterprise because it is capable of meeting the various conditions imposed under the “Administration Measures for Determination of High and New Tech Enterprises” (高新技術企業認定管理辦法). Such conditions include (i) owning proprietary intellectual property of the core technology contained in its major products and such proprietary intellectual property has been obtained through self development; (ii) to reach the level of scientific and technical personnel with educational background and research and development personnel; (iii) level of research and development expenses; (iv) level of revenue derived

RISK FACTORS

from sale of high and new tech products; (v) number of independent intellectual property rights, and (vi) products are within the range as prescribed in the High and New technology fields under the key support of the state, etc. Following the accreditation of Zhangping Kimura as a High and New Technology enterprise, we have to submit our financial statements together with details of our research and development activities and other technological innovation activities to the local tax authority and other relevant authorities for the annual review to enjoy the 15% preferential tax treatment. Our renewal of High and New Technology Enterprise accreditation will be on a 3 year basis after the expiry in 2012. As advised by our PRC Legal Adviser, if we fail the annual review and cannot obtain approval from the local tax authority to renew our High and New Technology enterprise accreditation of Zhangping Kimura upon its expiration, Zhangping Kimura will no longer be entitled to enjoy the preferential tax treatment, as well as the other benefits conferred under such accreditation. For the years ended 31 December 2009, 2010 and 2011, the tax expense of Zhangping Kimura had been reduced by approximately RMB nil, RMB5.6 million and RMB9.9 million, respectively under such accreditation. Therefore, should we fail to renew such accreditation, our tax expenses will be increased, our working capital, our financial performance and result may be adversely affected.

If we fail to source timber materials from legitimate sources or otherwise meet with our customers' requests for using FSC or PEFC certified materials in production, we may be exposed to litigation risks and our reputation and financial performance may be adversely affected

We source timber materials from legitimate sources and/or FSC and PEFC certified suppliers. Although certification by FSC and PEFC is not a statutory requirement, some of our overseas customers request us to use FSC/PEFC raw materials to produce their products.

In order to ensure the legitimacy of our timber raw materials and to comply with specific requests by our customers, we have adopted various measures when procuring timber which includes the inspection of licences/permits, certificates of origin, requiring relevant suppliers to provide transaction documents bearing clear indication of FSC/PEFC accreditations for the materials supplied. However, we cannot totally eliminate the possibility that the materials supplied may not comply with FSC/PEFC standards or from legitimate sources as claimed by our suppliers. In case we fail to use timber materials from legitimate sources or otherwise meet with our customers' requests for using FSC or PEFC certified materials in production, we may be exposed to litigation risks and our reputation and financial performance may be adversely affected.

RISKS RELATING TO THE INDUSTRY

In the event that any of our overseas markets raises its entrance barriers or implements any trade protection measures against our products, our business operations, financial performance and results may be adversely affected

For the years ended 31 December 2009, 2010 and 2011, approximately 100.0%, 62.0% and 51.5% of our total revenue was derived from sales to overseas markets in the Asia Pacific (exclusive of the PRC), Europe and North America. Amongst the overseas sales, for the years ended 31 December 2009, 2010 and 2011, our revenue derived from North America was approximately RMB68.7 million, RMB73.5 million and RMB101.2 million respectively. The market demand for our products may weaken and we may encounter sales interruptions and/or increase in costs in the event of any rise in entrance barriers or implementation of new trade protection measures.

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The administration of existing U.S. trade law may create adverse consequences for sales by us to our customers. In particular, there are certain provisions under U.S. law that permits the U.S. government to retaliate against certain alleged unfair foreign trading practices. The trade relations between the U.S. and the PRC has been contentious in the recent past, and we cannot predict whether this tension will interfere with the ability of our customers to import our products into the United States in the future. Such action could further increase the costs of imported timber products generally, or limit our ability to sell timber products to our customers as a result of restrictions on the import of our products by our customers.

In addition, if manufacturers or governmental authorities in the U.S. or our other overseas markets believe that our products or the products of our competitors were being “dumped” onto their markets at prices lower than the prices of which comparable goods are sold in the domestic market of the exporter, they could request the imposition of anti-dumping duties on our products, which may deter our overseas customers’ interests in purchasing our products and thereby weaken the market demand for our products. During the Track Record Period and up to the Latest Practicable Date, the U.S. government had initiated various anti-dumping investigations and imposed anti-dumping duties against some kinds of the timber-made products originated from the PRC such as specified kinds of timber floors. Besides, the U.S. Congress has approved a bill on anti-dumping duties against timber-made bedroom furniture in February 2012. Furthermore, the government of our other overseas markets may also impose anti-dumping duties against PRC originated products from time to time.

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any anti-dumping investigations or anti-dumping duties imposed against our products nor have we exported any timber-made bedroom furniture to the U.S. market or produced any timber floors which are subject to anti-dumping duties. In the event the U.S. government or other governments of our overseas markets imposes any anti-dumping duties against our products, raises the entrance barriers or implements new trade protection measures in future, our business operations, financial performance and results may be adversely affected and the prices of imported timber products may increase and thus limit our ability to sell timber products to our overseas customers.

Changes in trends of the indoor and outdoor furniture market and garden landscape and courtyard designs may affect our operations, financial condition and profitability

Our success depends to a large extent on possessing a competent product-design team that is capable of anticipating, identifying and responding effectively to changing market trends and consumers’ tastes. There can be no assurances that we will be able to continue developing products that are appealing to consumers or successfully meet the ever-changing consumer demands in the future. Moreover, as different regional markets in the PRC may face different local competitors and different market conditions, we may not be able to distinguish our products from those of our competitors. In the event that we fail to effectively anticipate, gauge and respond to the changing market trends and consumers’ tastes, or are unable to differentiate our products from those of our competitors, demand for our products may decrease and our operating results and financial performance may be adversely affected.

Our Group’s performance may be subject to seasonality

Our Group generally records higher sales volumes in winter because the demand from our customers for recreational products, landscape products and pet homes are usually higher in spring and summer, and we, as the manufacturers, usually start our shipments for such overseas orders from October till the end of February or March.

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As a result, our profits in the first half of every year will be affected as we have fixed and indirect costs that do not fluctuate according to our seasonal revenue. As such, the profit forecast of our Group for the six months ending 30 June 2012 as stipulated in Appendix III to this prospectus may not give any indication to our overall financial performance for the full year ending 31 December 2012 and should not be interpreted as a guidance of our 2012 full year results. If we are unable to manage our cash flow in an effective manner, we may face liquidity problems and our operations may be adversely affected.

RISKS RELATING TO THE PRC

We may be deemed a PRC resident enterprise under the new PRC Enterprise Income Tax Law and thus be subject to PRC taxation on our worldwide income

Under the new PRC Enterprise Income Tax Law that took effect on 1 January 2008, enterprises established outside of the PRC whose “de facto management bodies” are located in the PRC are considered “resident enterprises” and will generally be subject to the uniform 25% enterprise income tax rate on their worldwide income. The State Council has promulgated implementation rules of this new tax law which defines “de facto management body” as an organisation that exercises substantial and overall management and control over an enterprise’s manufacturing or business operation, finance and property.

Furthermore, Circular of the SAT on Issues Concerning the Identification of Chinese-controlled Overseas Registered Enterprises as Resident Enterprise in Accordance with the Actual Standard of Organisational Management 《國家稅務總局關於境外注冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》(國稅發[2009]82號), that was issued on 22 April 2009 and has a retrospective effect since 1 January 2008, provides specific tests regarding under what situations an enterprise’s “de facto management body” would be considered to be located in the PRC. While substantially all of our management is currently based in the PRC, and we expect them to continue to be located in the PRC for the foreseeable future, it is unclear when PRC tax authorities will start the determination process. In the event that we are treated as a “resident enterprise” for enterprise income tax purposes, our worldwide income, excluding dividends received from our PRC subsidiaries, will be subject to PRC income tax. See “Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to withholding taxes under PRC tax laws” below.

Additionally, under Circular of the SAT on Strengthening the Administration of Enterprise Income Tax on Incomes from Equity Transfers of Non-Resident Enterprises (“Circular Guoshuihan [2009] No. 698”) 《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》(國稅函[2009]698號) issued by the SAT on 10 December 2009, even if we or our overseas subsidiaries are considered as non-PRC resident enterprises, we cannot provide any assurance that any direct or indirect transfer of our equity interests in our PRC subsidiaries via our overseas holding companies in the future will not be subject to examinations by our PRC subsidiaries’ tax authorities and therefore will not be subject to a withholding tax of 10%. See “Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to withholding taxes under PRC tax laws” below.

Dividends payable by us to our foreign investors and gains on the sale of our Shares may become subject to withholding taxes under PRC tax laws

Under the new PRC Enterprise Income Tax Law and the implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that

RISK FACTORS

are “non-resident enterprises” (and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent such dividends have their source within the PRC. Similarly, any gain realised on the transfer of shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC.

Similarly, Circular Guoshuihan [2009] No. 698 provides that where a foreign investor indirectly transfers the equity of a PRC resident enterprise by disposing the equity of an overseas holding company (“Indirect Transfer”) located in a tax jurisdiction that: (i) has an effective tax rate of less than 12.5%, or (ii) does not tax its residents on their foreign incomes, the foreign investor shall report the Indirect Transfer to the competent PRC tax authority within 30 days from the date when the equity transfer agreement was made. The PRC tax authority will examine the true nature of the Indirect Transfer. Should it deem the foreign investor to have made the transfer in order to avoid the PRC tax, the PRC tax authority may disregard the existence of the overseas holding company and re-characterise the Indirect Transfer.

As a result, gains derived from such Indirect Transfer may be subject to the PRC withholding tax at the rate of 10%. Circular Guoshuihan [2009] No. 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the competent tax authority has the authority to adjust the amount of taxable income pertaining to the transaction.

Any slowdown in the PRC economy or changes in political and economic policies of the PRC government could have an adverse effect on the overall growth in the PRC which could reduce the demand for our products and materially and adversely affect our business, results of operations and financial condition

In the years ended 31 December 2009, 2010 and 2011, our revenues generated from timber products sold in the PRC amounted to approximately RMB0.04 million, RMB75.8 million and RMB149.0 million. Accordingly, our business, results of operations and financial condition are significantly affected by economic, political and legal developments in the PRC. Demand for our products is dependent on the general economic condition in the PRC. As a result, any adverse change in government policies or economic conditions in the PRC could have a material adverse effect on overall economic growth in the PRC which in turn could lead to a reduction in the demand for our products and consequently have a material adverse effect on our business, financial position and results of operations.

Restrictions by the PRC Government on foreign exchange may limit the liquidity of our company

At present, the RMB is not freely convertible to other foreign currencies, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. Under current PRC laws and regulations, payments of current account items, including profit distributions, interest payments and operation-related expenditures, may be made in foreign currencies without prior approval from SAFE, but are subject to procedural requirements including presenting relevant documentary evidence of such transactions and conducting such transactions at designated foreign exchange banks within the PRC that have the licences to carry out foreign exchange business. Strict foreign exchange control continues to apply to capital account transactions. These transactions must be approved by or registered with SAFE, and repayment of loan principal, distribution of return on direct capital investment and investment in negotiable instruments are also subject to restrictions.

RISK FACTORS

Uncertainties with respect to the PRC legal system could have a material adverse effect on us

Substantially all of our business and operations are conducted in the PRC and governed by PRC laws, rules and regulations. Our PRC subsidiaries are generally subject to laws, rules and regulations applicable to foreign investments in the PRC and, in particular, laws applicable to wholly foreign-owned enterprises. The PRC legal system is a civil law system based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC government has significantly enhanced PRC legislation and regulations to provide protections to various forms of foreign investments in the PRC.

However, the PRC has not developed a fully integrated legal system, and recently-enacted laws and regulations may not sufficiently address all relevant aspects of economic activities in the PRC. As many of these laws, rules and regulations are relatively new, and because of the limited volume of published decisions, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and may not be as consistent or predictable as in other more developed jurisdictions. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation.

Furthermore, the legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and could result in substantial costs and diversion of resources and management attention which could have a material and adverse effect on our business, results of operations and financial condition.

You may encounter difficulties in effecting service of legal process and enforcing judgments against us and our management

All of our production lines and a majority of our Directors are located in the PRC. As a result, it may not be possible for you to effect service of legal process upon us or our Directors in the PRC. The PRC does not have treaties providing for reciprocal recognition and enforcement of judgments of courts with Hong Kong, the United States, the United Kingdom or most other western countries. Thus, it may be difficult to enforce against us and our Directors in the PRC any judgments obtained from any court or arbitral tribunal outside the jurisdiction of the PRC.

Fluctuations in interest rates and the recent credit crunch in the PRC may materially and adversely affect the operations and borrowing power of our Group

As at 31 December 2009, 2010 and 2011, our Group's borrowing amounted to approximately RMB21.3 million, RMB47.0 million and RMB85.8 million, respectively. Due to the recent national credit crunch, it is uncertain as to whether the bank interest rates in the PRC will continue to rise in the coming years. Should the PRC government fail to ease the crunch, the borrowing power of our Group will be reduced and our operations and financial performance is likely to be materially and adversely affected.

RISK FACTORS

RISKS RELATING TO THE SHARE OFFER

Forward-looking statements contained in this prospectus should not be unduly relied upon

Various forward-looking statements which can be identified by the use of forward-looking terminologies such as “may”, “will”, “expect”, “anticipate”, “continue”, “believe” and other similar expressions are employed in this prospectus. In making these forward-looking statements, we and our Directors have considered among others our business strategies to achieve our business objectives, the anticipated growth of the industry we operate in. Such forward-looking statements are based on assumptions regarding our present and future business strategies and the environment in which our Group will operate in the future and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Should one or more of these risks or uncertainties materialise, or should any underlying assumptions prove incorrect, the forward-looking events or circumstances described in this prospectus might not occur in the way we expect. Accordingly, investors should not place undue reliance on such forward-looking statements.

There has been no prior public market for our Shares and an active trading market may not develop

Prior to the Share Offer, there has been no public market for our Shares. The Offer Price may not be indicative of the price at which our Shares will trade on the Stock Exchange upon Listing. There can be no assurances that an active and a liquid market for our Shares will develop upon Listing, or if it does develop, it will be sustained after Listing. Prices for our Shares will be determined in the market place and may be influenced by various factors, including liquidity of the Shares, investors’ perceptions of our Group and the industry in which it operates and the general economic and market conditions in Hong Kong and the PRC. Accordingly, we cannot predict whether an active or liquid trading market for our Shares will develop or be sustained.

Trading volume and market price of the Shares may fluctuate

The price and trading volume of the Shares may be highly volatile. Factors such as variations in the our revenues, earnings and cash flow, strategic alliances or acquisitions, industrial or environmental accidents suffered by us, loss of key personnel, changes in ratings by financial analysts and credit rating agencies, litigation or fluctuations in the market prices for the products or our raw materials could cause large and sudden changes in the volume and price at which the Shares will trade. In addition, significant price and volume fluctuations that are not related to our operating performance may sometimes occur. These fluctuations may also materially and adversely affect the market price of the Shares.

Purchasers of our Shares in the Global Offering will experience immediate dilution, and may experience further dilution if we issue additional Shares in the future

The Offer Price of our Shares is higher than the value of the net tangible assets per Share immediately prior to the Global Offering. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution to the value of the pro forma adjusted net tangible assets of HK\$0.36 per Share based on the maximum offer price of HK\$1.15 per Share. In order to expand our business, we may consider issuing additional Shares in the future. Purchasers of our Shares may experience further dilution in the net tangible asset book value per Share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset book value per Share.

RISK FACTORS

Industry information and statistics contained in this prospectus may not be unduly relied upon

Certain industry information and statistics contained in the section headed “Industry Overview” in this prospectus are derived from government, trade and industry associations. We believe that the sources of the said industry information and statistics are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. Such information has not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy.

Investors should read this entire prospectus carefully and should not place any reliance on any information published in press articles or other media reports without carefully considering the risks and other information contained in this prospectus

Prior or subsequent to the publication of this prospectus, there has been or may be press and media coverage regarding us and the Global Offering, in addition to marketing materials published by us in compliance with the Listing Rules. We have not authorised any such press articles and media reports, and the financial information, projections, valuations and other forward-looking information about us contained in such unauthorised press articles and media reports may not truly reflect what is disclosed in this prospectus. We make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in such press articles and media reports and we do not accept any responsibility for the accuracy or completeness of such financial information, projections, valuations or other forward-looking information contained therein. To the extent that any of the information in the press articles or other media reports is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should only rely on information included in this prospectus and should not rely on any of the information in such press articles or other media reports in making their investment decisions.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, our Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Since our principal business operations are primarily located in the PRC, the senior management members of our Group are, and are expected to continue to be, based in the PRC. Therefore, for the purpose of our Group's operations, our Directors consider that it is not necessary for our Group to appoint two executive Directors who ordinarily reside in Hong Kong. At present, the Board consists of 7 Directors. All 3 executive Directors ordinarily reside in the PRC. We have applied to the Stock Exchange for a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules.

We have received from the Stock Exchange a waiver from compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) We have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel with the Stock Exchange and will ensure that they comply with the Listing Rules at all times. The two authorised representatives appointed are Miss Wong On Lai, our company secretary and Mr. Wu, our chairman, chief executive officer and executive Director. Each of them will be available to meet with the Stock Exchange in Hong Kong upon short notice and will be readily contactable by telephone, facsimile or e-mail. Each of the two authorised representatives has been duly authorised to communicate on behalf of our Company with the Stock Exchange;
- (b) We intend to appoint Guotai Junan Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules who will also act as our Company's additional communication channel with the Stock Exchange;
- (c) The authorised representatives have means to contact all members of the Board (including the non-executive Director and the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the members of the Board for any matters. We will implement a policy whereby (i) each Director will provide his or her mobile phone number, residential phone number, facsimile number and e-mail address to the authorised representatives; (ii) each Director will provide valid phone numbers or means of communication to the authorised representatives when he or she is traveling; and (iii) each Director will provide his or her mobile phone number, residential phone number, office phone number, facsimile number and e-mail address to the Stock Exchange;
- (d) Miss Wong On Lai, our company secretary, is ordinarily resident in Hong Kong. She will (i) provide her office phone number, mobile phone number, facsimile number and e-mail address to the Stock Exchange; and (ii) have the office phone numbers, mobile phone numbers, residential phone numbers, facsimile numbers and e-mail addresses of all the Directors and the authorised representatives;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (e) Meetings between the Stock Exchange and the Directors could be arranged through the authorised representatives or our compliance adviser, or directly with the Directors within a reasonable time frame. We will inform the Stock Exchange promptly in respect of any change in our authorised representatives and compliance adviser in accordance with the Listing Rules; and
- (f) All of the Directors who are not ordinarily resident in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong and will be able to meet with the relevant members of the Stock Exchange within a reasonable period of time, when required.

CONNECTED TRANSACTIONS

Certain members of our Group have entered into transactions that would constitute continuing connected transactions of our Company under the Listing Rules after the Listing. Pursuant to Chapter 14A of the Listing Rules, such continuing connected transactions are subject to the reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirement. Nonetheless, our Company has received from the Stock Exchange a waiver from strict compliance with the said announcement requirement. Further details of such continuing connected transactions and the waiver are set out in the section headed "Connected Transactions" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

This prospectus is published solely in connection with the Global Offering which is sponsored by the Sole Sponsor. Subject to the terms of the Underwriting Agreements, the Hong Kong Offer Shares are fully underwritten by the Hong Kong Underwriters and the International Placing Shares are fully underwritten by the International Underwriters. Particulars of the Underwriters and the underwriting arrangements are set forth in the section headed “Underwriting” to this prospectus.

DIRECTORS’ RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this prospectus or this prospectus misleading.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offer which forms part of the Global Offering. For applications under the Hong Kong Public Offer, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offer.

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement. The International Placing is expected to be fully underwritten by the International Underwriters pursuant to the International Underwriting Agreement, which is expected to be entered into on or about the Price Determination Date, subject to agreement on the Offer Price between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters). The Global Offering is managed by the Sole Global Coordinator.

If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before the Price Determination Date, the Global Offering will not proceed and will lapse. Further information about the Underwriters and the underwriting arrangements is set forth in the section headed “Underwriting” in this prospectus.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Sole Global Coordinator, the Underwriters, any of their respective directors, agents, employees or advisers or any other parties involved in the Global Offering.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Offer Shares under the Global Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit an offering of the Offer Shares or the distribution of this prospectus or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Shares in issue and the Offer Shares to be issued pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option, any Shares to be issued under the Capitalisation Issue, any Shares which may be issued under the Share Option Scheme). Save as disclosed in this prospectus, no part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

HONG KONG REGISTER OF MEMBERS AND STAMP DUTY

All Offer Shares issued pursuant to applications made in the Hong Kong Public Offer will be registered on our Company's register of members to be maintained in Hong Kong by its Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited. Our Company's principal register of members will be maintained in the Cayman Islands by its principal share registrar, Codan Trust Company (Cayman) Limited.

Dealings in our Shares registered on our Company's register of members maintained in Hong Kong will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of and dealing in the Offer Shares (or exercising any rights attached to them). None of our Company, the Sole Global Coordinator, the Sole Sponsor, the Underwriters, any of their respective directors, agents or advisers or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding or disposal of or dealing in the Offer Shares or exercising any rights attached to them.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

STABILISATION AND OVER-ALLOTMENT OPTION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. In Hong Kong, the stabilisation price is not permitted to exceed the offer price.

In connection with the Global Offering, the Sole Global Coordinator, as the stabilising manager, or its affiliates or any person acting for it, for itself and on behalf of the Underwriters, may over-allocate Shares or effect transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Such transactions may be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Sole Global Coordinator, its affiliates or any person acting for it to conduct any such stabilisation action. Such stabilisation action, if commenced, will be conducted at the absolute discretion of the Sole Global Coordinator, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period.

In connection with the International Placing, the Sole Global Coordinator may over-allocate up to and not more than an aggregate of 27,000,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means.

Further details of the stabilisation and the Over-allotment Option are set out in the paragraphs headed “Over-allotment Option” and “Stabilisation” under the section headed “Structure of the Global Offering” in this prospectus.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for Hong Kong Offer Shares are set out in the section headed “How to apply for the Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange and our Company’s compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business date after any trade day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for our Shares to be admitted into CCASS.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

| Name | Residential Address | Nationality |
|--|---|-------------|
| <i>Executive Directors</i> | | |
| Mr. Wu Zheyang (吳哲彥) | No. 48-8 Shigui Ding, Jingcheng District, Zhangping City, Fujian Province, PRC | Chinese |
| Mr. Wu Qingshan (吳青山) | 686 Donghuan Road, Jingcheng District, Zhangping City, Fujian Province, PRC | Chinese |
| Ms. Xie Qingmei (謝清美) | Room 604, Block 49, Tie Lu Tie San Qu, Jingcheng District, Zhangping City, Fujian Province, PRC | Chinese |
| <i>Non-executive Director</i> | | |
| Mr. Wu Dongping (吳冬平) | No.19, Xia Lin Xin Keng Lung, Xi Nan Zhen, Zhangping City, Fujian Province, PRC | Chinese |
| <i>Independent non-executive Directors</i> | | |
| Mr. Lam Hin Chi (藍顯賜) | Flat G, 19th Floor, Orchid Court, New Town Plaza, Phase 3 2-8 Sha Tin Centre Street, Shatin, Hong Kong | Chinese |
| Mr. Jin Zhongwei (金重為) | Room 304, Block 8 Er Cun, Nanjing Forestry University, Jiangsu Province, PRC Postal Code: 210037 | Chinese |
| Mr. Su Wenqiang (蘇文強) | No.1, 7th Floor, Unit 3, Block 2 Lin Yuan Xiao Qu, Nangang District, Ha Erbin City, Heilongjiang Province, PRC | Chinese |

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

| | |
|---|--|
| Sole Sponsor | Guotai Junan Capital Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong |
| Sole Global Coordinator, Bookrunner and Lead Manager | Guotai Junan Securities (Hong Kong) Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong |
| Legal advisers to the Sole Sponsor and Underwriters | <i>as to Hong Kong law:</i> Stephen Mok & Co. in association with Eversheds LLP 21st Floor, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong <i>as to PRC law:</i> Deheng Law Firm Shenzhen Office Storey 11, Section B Anlian Plaza No. 4018 Jintian Road Fu Tian District Shenzhen Guangdong Province PRC |
| Legal advisers to the Company | <i>as to Hong Kong law:</i> Li & Partners 22nd Floor, World-Wide House Central Hong Kong <i>as to PRC law:</i> Hills & Co. 11th Floor, Central Tower No. 88 Fu Hua 1st Road Fu Tian Central Business District Shenzhen PRC |

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

as to Cayman Islands law:

Conyers Dill & Pearman (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Auditors and reporting accountants

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road, Central
Hong Kong

Property valuer

Asset Appraisal Limited
Room 901, 9th Floor
On Hong Commercial Building
145 Hennessy Road
Wanchai
Hong Kong

Receiving bankers

Standard Chartered Bank (Hong Kong) Limited
15th Floor, Standard Chartered Tower
388 Kwun Tong Road
Kwun Tong
Kowloon
Hong Kong

CORPORATE INFORMATION

CORPORATE INFORMATION

| | |
|---|--|
| Registered office | Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands |
| Headquarter and principal place of business in the PRC | Fushan Industrial District, Zhangping, Fujian, the PRC |
| Principal place of business in Hong Kong | Room 2702 China Resources Building 26 Harbour Road Wanchai Hong Kong |
| Company's website | www.merrygardenholdings.com (information on the website does not form part of this prospectus) |
| Company secretary | Miss Wong On Lai, <i>HKICPA</i> |
| Authorised representatives | Miss Wong On Lai 1S, 87, Chun Hing San Tsuen Yuen Long New Territories Hong Kong Mr. Wu Zheyang No. 48-8 Shigni Ding Jingcheng District Zhangping City Fujian Province PRC |
| Audit committee | Mr. Lam Hin Chi (<i>chairman</i>) Mr. Su Wenqiang Mr. Jin Zhongwei |
| Remuneration committee | Mr. Jin Zhongwei (<i>chairman</i>) Mr. Su Wenqiang Mr. Lam Hin Chi |
| Nomination committee | Mr. Jin Zhongwei (<i>chairman</i>) Mr. Su Wenqiang Mr. Lam Hin Chi |

CORPORATE INFORMATION

| | |
|--|---|
| Principal share registrar and transfer office in the Cayman Islands | Codan Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands |
| Hong Kong Share Registrar | Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong |
| Compliance Adviser | Guotai Junan Capital Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong |
| Principal bankers | Agricultural Bank of China, Zhangping Branch China Construction Bank, Zhangping Branch Bank of China, Zhangping Branch |

INDUSTRY OVERVIEW

The information and statistics set forth in this section are mostly extracted from the Report on In-depth Market Research of China Timber Villas and Leisure Timber Household Products (中國木結構房屋及木質休閒家居用品市場深度調研報告) issued by ZhongAn Consultant, an independent market research company on 18 June 2012.

Having considered the background of ZhongAn Consultant, we believe that the ZhongAn Consultant report is an appropriate source of information. We believe that these sources are appropriate for deriving such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading. The information in the ZhongAn Consultant report has not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, Bookrunner and Lead Manager, the Underwriters, their respective directors or advisers or any other party involved in the Global Offering and no representation is given as to its accuracy.

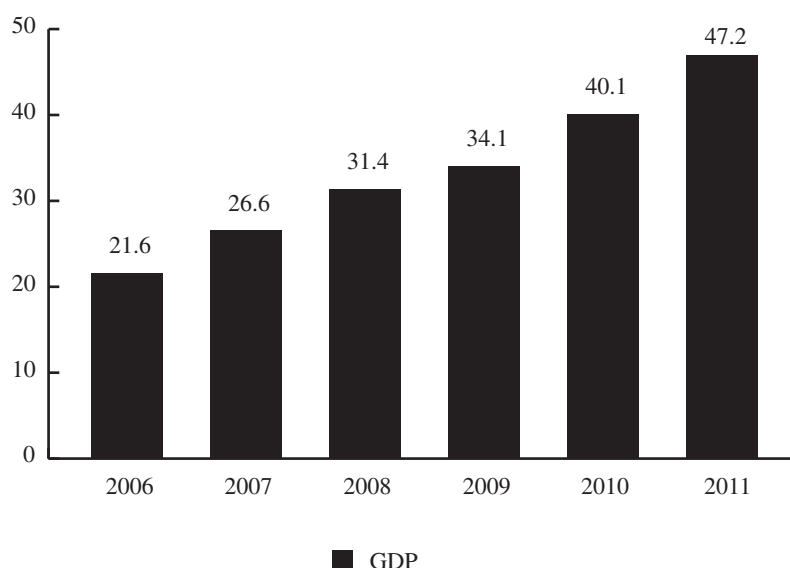
MACROECONOMIC ENVIRONMENT ANALYSIS

A. Current Status and Forecast of the PRC Economy for 2006-2016

I. Gross Domestic Product (GDP) of the PRC for 2006-2011

Since 2006, the PRC economy has maintained a relatively rapid growth. In 2010, the GDP of the PRC reached RMB40.1 trillion. According to the data published by the National Bureau of Statistics of the PRC, based on preliminary calculations, the GDP for 2011 amounted to RMB47.2 trillion, an increase of 9.2% year on year as calculated at a comparable price.

GDP of the PRC for 2006 to 2011
RMB trillion



Source: National Bureau of Statistics of the PRC

INDUSTRY OVERVIEW

II. Household Income for 2006-2011

In 2011, the urban household income per capita of the PRC amounted to RMB23,979. Among which, the urban household disposable income per capita amounted to RMB21,810, representing a nominal growth of 14.1% year on year and, if price factors are taken into consideration, a real growth of 8.4%. In 2011, the rural household cash income per capita of the PRC amounted to RMB6,977, representing a nominal growth of 17.9% year on year and, if price factors are taken into consideration, a real growth of 11.4%.

Urban household disposable income per capita and growth rate for 2006-2011

| | Urban household disposable income per capita (RMB) | Increase year on year (%) |
|-------------|--|------------------------------|
| 2006 | 11,759 | 10.4 |
| 2007 | 13,786 | 12.2 |
| 2008 | 15,781 | 8.4 |
| 2009 | 17,175 | 9.8 |
| 2010 | 19,109 | 7.8 |
| 2011 | 21,810 | 8.4 |

Source: National Bureau of Statistics of the PRC

Rural household disposable income per capita and growth rate for 2006-2011

| | Rural household net income per capita (RMB) | Increase year on year (%) |
|-------------|---|---------------------------------|
| 2006 | 3,587 | 7.4 |
| 2007 | 4,140 | 9.5 |
| 2008 | 4,761 | 8.0 |
| 2009 | 5,153 | 8.5 |
| 2010 | 5,919 | 10.9 |
| 2011 | 6,977 | 11.4 |

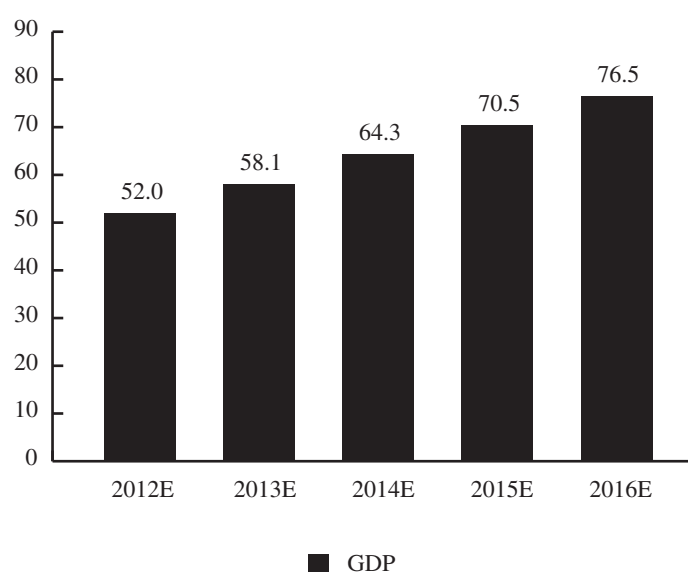
Source: National Bureau of Statistics of the PRC

INDUSTRY OVERVIEW

III. Forecast for the PRC Economy for 2012-2016

For the next few years, the growth of the PRC economy is expected to slow down due to a number of factors, such as inflation, tightening of monetary policy, the European debt crisis and the growth of other emerging economies, speculative investment demand in the PRC will decline due to governmental policy control, the national economy will experience steady growth rather than excessively rapid growth, while inflation will remain a bar to economic growth and there will be a significant gap between real growth and nominal growth. It is expected that the GDP of the PRC will reach RMB52.0 trillion in 2012 and RMB76.5 trillion in 2016.

Forecast of the GDP of the PRC for 2012-2016
RMB trillion



Source: ZhongAn Consultant

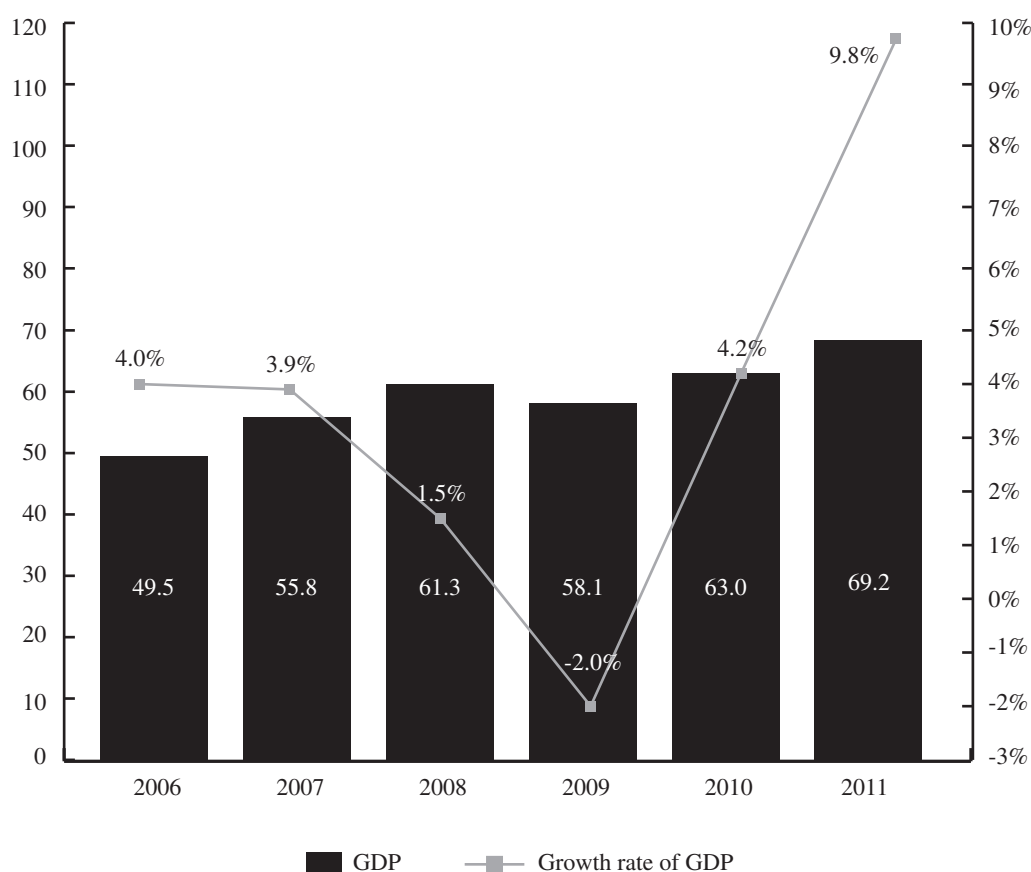
INDUSTRY OVERVIEW

B. Current Status and Forecast of the Global Economy for 2006-2016

I. Current Status of the Global Economy (2006-2011)

In 2006, the GDP of the global economy reached US\$49.5 trillion, with a growth rate in GDP of approximately 4.0%. In 2007, the global economy maintained a growth rate of 3.9% and reached US\$55.8 trillion. In 2008-2009, due to the economic crisis in the United States of America and Europe, the growth rate of the global economy declined to 2.0% in 2009. In 2010, driven by emerging economies, the global economy maintained a recovery growth of 4.2%, and the global economic aggregate reached US\$63.0 trillion. In 2011, the GDP of the global economy further increased to US\$69.2 trillion.

Global GDP and its growth rate for 2006-2011
US\$ trillion



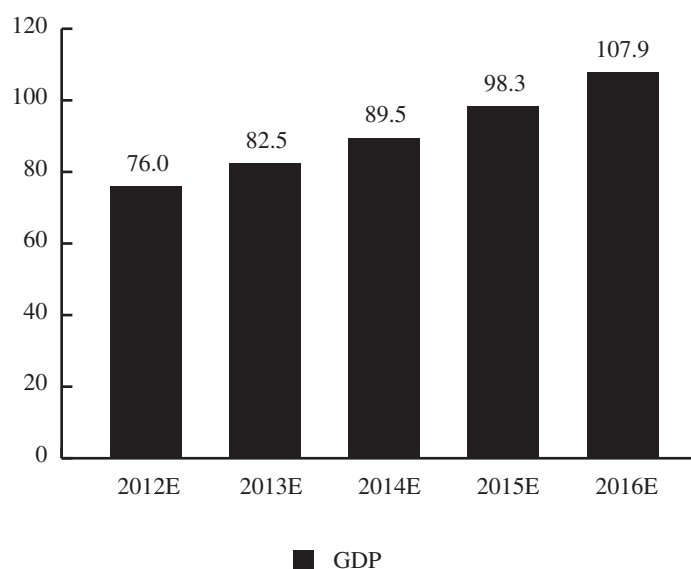
Source: The World Bank

INDUSTRY OVERVIEW

II. Forecast of the Global Economy for 2012-2016

For the next few years, due to inflation in emerging economies and the debt crisis in developed economies, the gap between real growth and nominal growth in the global economy is expected to continue to expand. In nominal terms, it is expected that the global GDP will reach US\$76.0 trillion in 2012 and exceed US\$100 trillion to reach US\$107.9 trillion in 2016.

Forecast of Global GDP for 2012-2016
US\$ trillion



Source: ZhongAn Consultant

C. Leisure and Leisure Industry

i) Definition of Leisure Industry

In December 2010, at a national working conference held by the National Tourism Administration of the PRC in Zhuhai, the concept of “leisure” was summarised as: “people’s activities carried out in leisure time with regards to, among others, sight-seeing & vocation, recreation & entertainment, learning & education as well as mental and physical pleasure, and related business sectors and the industry to provide services, production and protection for such activities”.

INDUSTRY OVERVIEW

ii) Overview of the PRC Leisure Industry in 2010

Leisure spending in the PRC reached RMB2.2 trillion in 2010.

The Leisure Green Book 2010-2011 was issued by the National Tourist Bureau of the PRC (中國國家旅遊局) in June 2011. The Leisure Green Book provides guidelines and analysis with respect to the development trends of the PRC nationals' leisure industry as well as development trends for relevant industries including leisure tourism, leisure culture and leisure sports. The Leisure Green Book also covers the development experience of local leisure industries and historical trends with regards to the PRC leisure industry.

The Green Book adopts the same scope and methods of statistics applied in 2009 to calculate the core components of people's leisure spending in the PRC in 2010, which amounted to approximately RMB2.2 trillion, accounting for 14.2% of the total retail sales of consumer goods and 5.5% of the GDP. Among which, (1) spending in leisure activities related to recreation and tourism amounted to RMB1,013.2 billion, ranking first; (2) spending in leisure activities related to culture and entertainment amounted to RMB348.5 billion, ranking second; and (3) spending in leisure activities related to sports and physical fitness and catering amounted to RMB254.3 billion and RMB440.0 billion, respectively.

According to the Green Book, during the period of the "Eleventh Five-Year Plan", people's leisure living standards in the PRC improved significantly. Furthermore, the "Twelfth Five-year Plan" released in March 2011 has made a number of considerations and arrangements in respect of, among others, income distribution, social security and the establishment of a public service system. Increasing income and improving social security will significantly enhance people's spending power and release the potential of people's consumption spending, and thus mitigate considerably the fundamental constraints on people's leisure activities imposed by external factors. The Green Book suggests that the government shall endeavour to improve the quality of people's leisure life by multiple means, such as implementing and optimising the existing leave system, establishing a public service system for leisure activities, fostering leisure market supply and popularising a healthy and uplifting concept of leisure.

D. Overview of PRC Timber Resources

I. Analysis of the PRC policies on forestry industry development

Forestry Industry Revitalisation Plan for 2010-2012 (《林業產業振興規劃(2010-2012)》)

According to the Forestry Industry Revitalisation Plan (2010-2012) jointly promulgated by the State Forestry Administration (國家林業局), the NDRC (國家發改委), the Ministry of Finance (財政部), the Ministry of Commerce, and the SAT in October 2009, the total output value of the forestry industry increased from RMB1.4 trillion in 2008 to RMB2.3 trillion in 2012, of which hard board timber production remained stable at 100.0 million m³. The industrial forest area in the PRC is expected to expand rapidly in 2012, which will improve the domestic supply of timber and forestry products. The import of timber and related products (including paper products) will remain stable, with the annual timber imports expected to remain over 160.0 million m³.

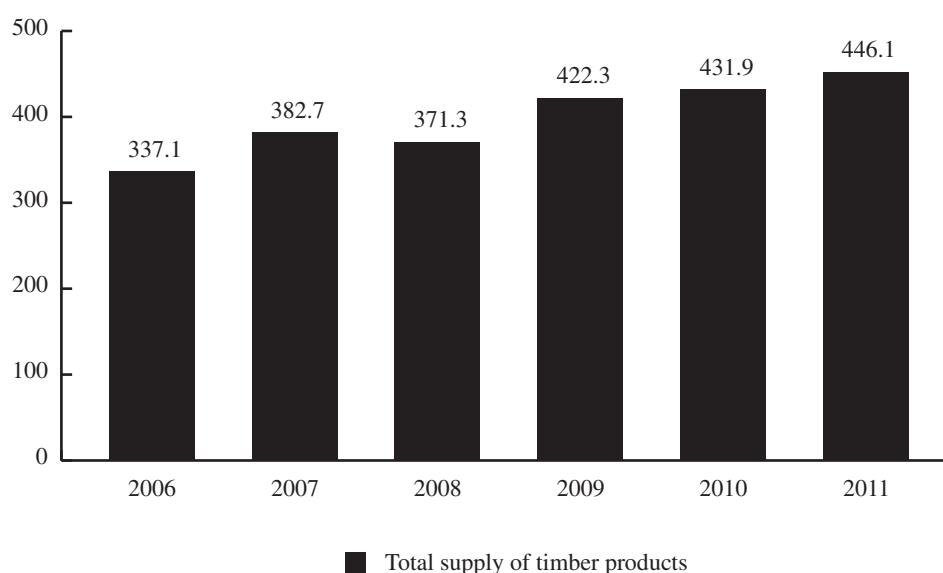
INDUSTRY OVERVIEW

II. Analysis of the PRC timber market for 2006-2016

i) Analysis of supply in the PRC timber market for 2006-2016

The total supply of timber products in the PRC was approximately 431.9 million m³ and approximately 446.1 million m³ in 2010 and 2011 respectively. The import of log and other wood forestry products was 183.6 million m³, and the domestic production of commercial forests, wood particleboards and fibre boards (excluding those overlapping with firewood), timber for self-use by rural consumers and firewood, and timber resulting from logging exceeding limits and last-year inventory were 80.9 million m³, 93.7 million m³, 52.7 million m³, and 21 million m³, respectively.

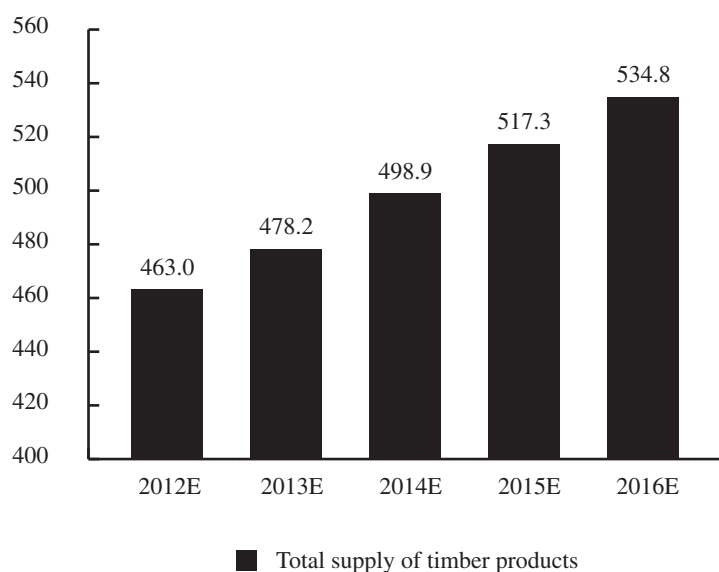
Total supply of timber products in the PRC (2006-2011)
(million m³)



Source: The State Forestry Administration

INDUSTRY OVERVIEW

**Total supply forecast of timber products in the PRC for 2012-2016
(million m³)**



Source: ZhongAn Consultant

ii) Analysis of timber resources prices in the PRC for 2006-2011

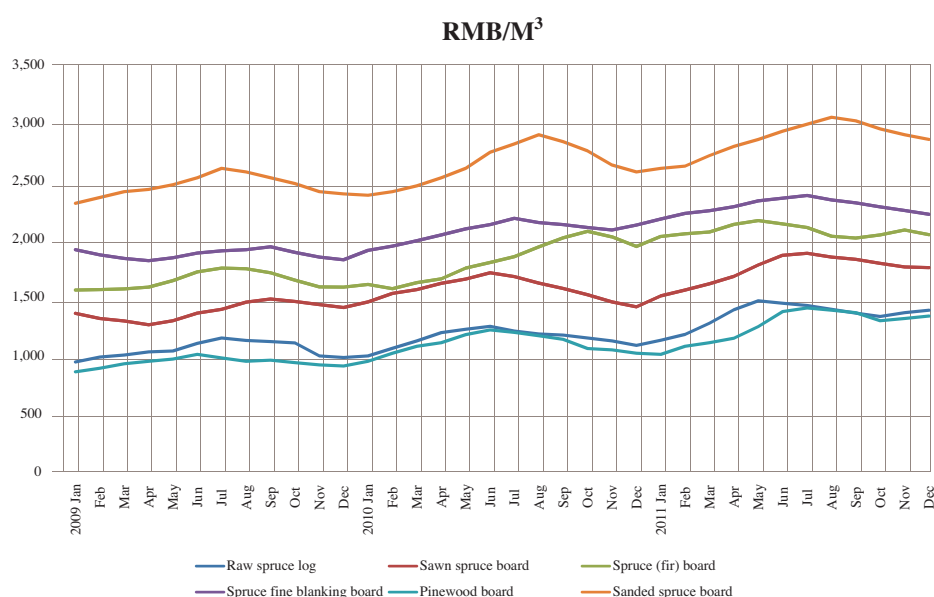
According to the China Forestry Statistical Yearbook, the average wood log price in the PRC was approximately RMB634/m³, and the average sawn timber price was approximately RMB1,042/m³ in 2011. The average prices of the main timber products in the PRC from 2006 to 2011 were as follows:

| | Unit | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|-----------------------------|--------------------|-------|-------|-------|-------|-------|-------|
| Raw spruce logs | RMB/m ³ | 1,250 | 950 | 830 | 1,050 | 1,150 | 1,360 |
| Sawn spruce boards | RMB/m ³ | 1,580 | 1,260 | 1,130 | 1,380 | 1,570 | 1,740 |
| Spruce fine-blanking boards | RMB/m ³ | 1,970 | 1,760 | 1,640 | 1,870 | 2,070 | 2,280 |
| Sanded spruce boards | RMB/m ³ | 2,530 | 2,320 | 2,190 | 2,460 | 2,640 | 2,860 |
| Pinewood boards | RMB/m ³ | 1,070 | 990 | 860 | 940 | 1,100 | 1,260 |
| Spruce (fir) boards | RMB/m ³ | 1,760 | 1,610 | 1,460 | 1,640 | 1,820 | 2,070 |

Source: China Forestry Statistical Yearbook 2006-2011

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Price trend of raw materials for 2009-2011



Source: ZhongAn Consultant

Market Structure

The industry for timber villas, sheds together with their related parts and structures, and leisure household products is highly competitive in both the PRC and worldwide. Although there are some well-known enterprises, none of them dominate the market. At the end of 2011, there are around 300 PRC companies, 200 Asia Pacific companies and 80 European and American companies running a business in this sector.

(1) Leisure Household Products

(i) Recreational Products

The market for recreational products in the PRC is fragmented. In 2009, the four major brands in this sector were Zhangping Kimura, Fenghua Jinxing Timber Products Company Limited (奉化市錦星木製品製造有限公司), Anji Songsen Timber and Bamboo Crafts Company Limited (安吉縣松森木竹工藝有限公司) and Zhangzhou Baolijia Timber Industry Company Limited (漳州寶利嘉木業有限公司) which took up around 29.2% of the total sale revenue in the market. Out of the four said major brands, the leading one was Anji Songsen Timber and Bamboo Crafts Company Limited (安吉縣松森木竹工藝有限公司) with a 13.2% market share, then the next one was Zhangping Kimura with a 7.8% market share followed by Fenghua Jinxing Timber Products Company Limited (奉化市錦星木製品製造有限公司) and Zhangzhou Baolijia Timber Industry Company Limited (漳州寶利嘉木業有限公司) which had 5.9% and 2.3% respectively. In 2010, Zhangping Kimura had further expanded its share in the recreational products market to 9.4%.

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(ii) Landscape Garden Products

The landscape garden products market in the PRC is fragmented as well. In 2009, the six major brands in this market, namely, Zhangping Kimura, Zixi Zhegan Garden-use Timber Products Company Limited (資溪縣浙贛園藝木製品有限公司), Lishe Yantai Timber Industry Company Limited (麗舍煙臺木業有限公司), Anji Chunhe Garden-use Products Company Limited (安吉春禾園藝製品有限公司), Linhai Guoming Teyi Company Limited (臨海國明特藝有限公司) and Xinyu Xinan New Construction Materials Company Limited (新余市信安新型建材有限公司) accounted for around 34.0% of the total sale revenue of the market. Despite the key player, Lishe Yantai Timber Industry Company Limited (麗舍煙臺木業有限公司), had a relatively larger share of 19.3%, it still could not monopolise the market. Zhangping Kimura, on the other hand, had a market share of 4.5% in 2009. Its market share in this sector had further increased to 4.6% in 2010.

(iii) Indoor and Outdoor Furniture

The indoor and outdoor furniture market in the PRC is highly competitive and fragmented.

(iv) Pet-home Designs

The pet-home designs market in the PRC is fragmented. In 2009, the three major brands in this market, namely, Zhangping Kimura, Zhenjiang Jinmao Weiye Crafts Company Limited (鎮江金茂偉業工藝品有限公司) and Panan Youqiang Crafts Factory (磐安縣友強工藝品廠) took up around 10.4% of the total sale revenue of the market. The leading brand out of the three was Zhenjiang Jinmao Weiye Crafts Company Limited (鎮江金茂偉業工藝品有限公司) with a 7.0% market share, then followed by Panan Youqiang Crafts Factory (磐安縣友強工藝品廠) and Zhangping Kimura, which respectively had a 2.0% and 1.4% market share. In 2010, Zhangping Kimura's market share in this sector had further increased to 1.6%.

(2) Timber Villas, Sheds together with their Related Parts and Structures

Similarly, the market for timber villas, sheds together with their related parts and structures in the PRC is highly competitive and fragmented. There is no dominant player in the market. In 2009, the nine major brands, namely, Zhangping Kimura, Xingan Fulong Timber Industry Products Company Limited (新幹富隆木業製品有限公司), Manzhouli Aiyingsi Timber Products Company Limited Anshan Branch (滿洲裡愛英斯木業有限公司鞍山分公司), Lishe Yantai Timber Industry Company Limited (麗舍煙臺木業有限公司), Chengdu Chuanya Timber Industry Company Limited (成都川雅木業有限公司), Shanghai Dabutong Muye Technology Company Limited (上海大不同木業科技有限公司), Heze Senju Timber Industry Company Limited (荷澤森菊木業有限公司), Siping Fangyuan Timber Houses Manufacturing Company Limited (四平市方園木屋製造有限公司) and Yichun Xingyou Timber Villas Company Limited (伊春市興友木制別墅有限公司) altogether only took up around 9.3% market share. Among the nine said brands, the two most outstanding ones are Lishe Yantai Timber Industry Company Limited (麗舍煙臺木業有限公司) and Heze Senju Timber Industry Company Limited (荷澤森菊木業有限公司), which respectively had a 3.3% and 2.2% market share.

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Barriers for entering the Market

The percentage of forestry coverage of the PRC ranks 139th in the world and is approximately 2/3 of the world's average. The forestry coverage in the PRC is 0.145 hectares per capita, which is approximately 1/4 of the world's average. In view of such shortage, the PRC government has implemented various restrictions on the use of timber and promoted the use of steel and plastic substitutes in construction projects.

On the other hand, the timber products market in the PRC is very competitive and yet immature when compared to other countries. Relatively speaking, the local manufacturers are less competitive in respect of design capacity, technology, anti-corrosive skills and wood preservation methods. The above said factors on natural resources, policy and technology constitute barriers of entering the market.

DESCRIPTION OF MAIN TECHNOLOGIES IN THE INDUSTRY

I. Wood preservatives

In recent years, chromated copper arsenate ("CCA") was the most widely-used water-borne preservative. CCA contains oxides of copper, chrome and arsenic, or salts. According to statistics published in 2002 by Wade, the wood processed with CCA, together with small amounts of ammonical copper zinc arsenate, accounts for 80.0% of the United States market. CCA is low-priced. The wood processed with CCA has good non-corrosive properties, mechanical properties and surface coating properties, and competent leak-resistance. However, the arsenic and chrome contained in CCA may be harmful to personal health and environment, and the retirement and disposal of CCA-processed wood is still underdeveloped. As such, CCA has been prohibited in many countries. On 12 February 2002, the UN Environmental Protection Agency announced a voluntary decision made by the industry players to withdraw pressurised wood containing arsenal from the domestic wood market starting from December 2003, as a result of which the CCA-processed wood market would shrink by approximately 70.0%. The responses of various countries has varied, with Japan responding most quickly to replace CCA with preservatives that contains no arsenal or chrome.

In addition to CCA, other preservatives containing arsenal or chrome include, among others, ammonical copper citrate, ammonical copper arsenate, ammonical copper zinc arsenate and copper chrome boric acid. They are faced with similar problems.

A new preservation technology, Alkaline Copper Quaternary ("ACQ"), has started to replace CCA and become the dominant technology in the market. The main chemical composition of ACQ is quaternary ammonium compound. ACQ does not contain any toxic chemical substances such as arsenic or chrome, and does not harm to environment, people, animals, fish or plants. ACQ is safer to humans than CCA, and has been recognised by the US Environmental Protection Agency which is to be promoted in North America and Europe. Nevertheless, the cost of ACQ is approximately 20% higher than that of CCA.

The wood processed with ACQ or CCA are expected to still coexist in the PRC market in the foreseeable future, though that processed with ACQ will dominate the market in the long term.

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II. Wood modification technologies

Apart from wood preservation treatments, wood may be processed with modification or surface coating to achieve non-corrosiveness. Preservation treatments and modification are one-time methods that are applied to the entire wood, while surface coating may be conducted in phases to gain further non-corrosiveness and anti-discolouring, by blocking the wood from the external environment. Preservation treatments mean introducing toxic substances for decay fungi, pests and ants to wood to prevent corrosion, pests or ants. Modification involves changing the composition or structure of wood through heat or chemical reaction to reduce its water absorption and make its internal environment unsuitable for decay fungi, pests and ants. Modification technologies, as the only technologies that are likely to replace preservation treatments, are also a hot research topic.

III. Fire protection technologies

There is high demand for fire-retardant wood in the world's building industries. Countries such as the U.S. and Canada have established strict market admissions and regulatory systems, covering product specifications, uses, treatment processes, retardants, analysis methods and assessment. These systems have helped to maintain the quality of retardant products and have contributed to the industry's development.

IV. Anti-cracking technologies

Prior to the introduction of wood preservatives and anti-cracking agents, the wood industry mostly conducted anti-cracking treatments through temperature and humidity control. This traditional method, however, failed to improve the adaptability of wood with respect to its geological location and environment. With the development of anti-corrosion technologies, the functions of wood preservatives has extended from antiseptic and mould proofing to moth proofing and anti-desiccation, and treating agents with multiple functions have been introduced to the market. Furthermore, with the development of wood modification technologies, wood durability has been improved significantly.

Wood preservatives and wood modification technologies are often used concurrently in the world's wood industry, which improves the physical and chemical properties of wood, as well as its durability, through preservatives' protection. Nowadays the pure anti-cracking technologies seem to be less widely used. Manufacturers tend to improve the anti-desiccation performance of wood by combining preservatives with moth proofing, sterilisation and anti-desiccation functions with wood modification technologies.

The FSC and PEFC certification

The FSC and PEFC are two non-profit and non-governmental international organisations which offer Independent Third Party certification on forest management and wooden products. To obtain certifications of FSC and PEFC, a forest management company or a manufacturer have to fulfil respective requirements as follows:

For obtaining FSC

- Compliance with all applicable laws and international treaties

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- Equitable use and sharing of benefits derived from the forest
- Reduction of environmental impact of logging activities and maintenance of the ecological functions and integrity of the forest
- Appropriate monitoring and assessment activities to assess the condition of the forest, management activities and their social and environmental impacts

Under the FSC system, we are required to, among others, comply with applicable laws and regulations, respect rights of workers, equitable use and sharing of benefits and to prevent any mixing of FSC certified materials with non FSC materials in our purchase, production and transportation processes.

For obtaining PEFC

- Biodiversity of forest ecosystems is maintained or enhanced
- Chemicals of the products have to be substituted by natural alternatives or their use is minimised
- Workers' rights and welfare are protected
- Operations are undertaken within the legal framework and following best practices

Under the PEFC system, we are required to, among others, ensure we have carried out physical segregation methods, our order is on a job-order basis, our Critical Control Points (the points where there is any possibility for the uncontrolled mixing of certified and uncertified materials during the segregation process) were identifiable and were under control, as well as the requirement that PEFC raw materials were available in our premises and were put into production.

As the FSC and PEFC certifications are voluntary in nature, such certification bodies usually carry out investigations upon the request of the companies or manufacturers of their regions. After the certification bodies receive an application for certification, they will arrange a site visit to the applicant, assess its management or production practices, and conduct sample checks, etc. to verify if the applicant fulfils their respective requirements. If they are satisfied that the products of the applicant have complied with their requirements, the certified bodies will then grant the certification for such products. Upon the expiration of the said certifications, the accredited companies or manufacturers may apply to the relevant certifications bodies and arrange for a renewal assessment with procedures similar to the aforesaid application procedures. They will renew the certification should they satisfy that the renewal applicant has been complied with their respective requirements.

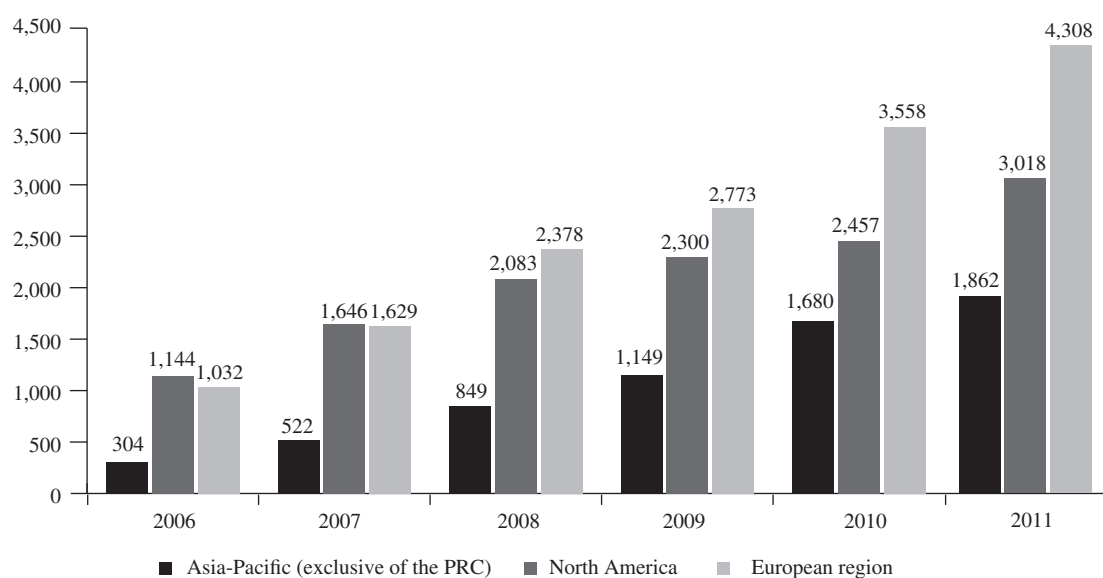
INDUSTRY OVERVIEW

INTERNATIONAL AND PRC TIMBER VILLAS, SHEDS AND THEIR RELATED PARTS AND STRUCTURES INDUSTRY AND ITS MARKET ANALYSIS AND FORECAST

A. International Timber Villas, Sheds together with their Related Parts and Structures and Its Market Analysis and Forecast

I. Analysis of Market Size in International Timber Villas, Sheds together with their Related Parts and Structures for 2006-2011

**Market Size of Timber Villas, Sheds together with their
Related Parts and Structures in the Major Regions of the World for 2006-2011**
US\$ million



Source: ZhongAn Consultant

i) *Analysis of Market Size in Asia Pacific (exclusive of the PRC)*

The market size of timber villas, sheds and their related parts and structures in the Asia Pacific (exclusive of the PRC) increased from approximately US\$304 million in 2006 to approximately US\$1,862 million in 2011.

ii) *Analysis of Market Size in North America*

In 2006, the timber villas, sheds and their related parts and structures in North America had a market size of approximately US\$1,144 million, reaching US\$2,083 million and US\$2,300 million in 2008 and 2009 respectively. In 2010, the timber villas, sheds and their related parts and structures in North America had a market size of approximately US\$2,457 million. Such market size had further increased to US\$3,018 million in 2011.

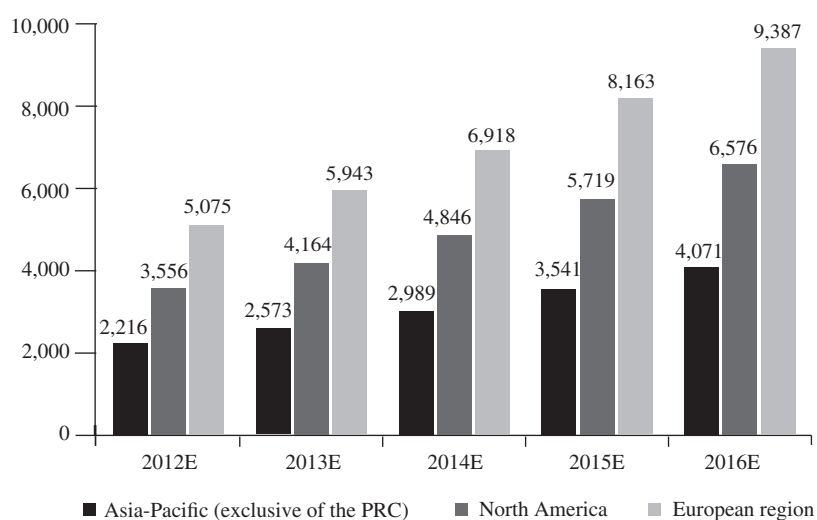
INDUSTRY OVERVIEW

iii) *Analysis of Market Size in Europe*

In 2006, the timber villas, sheds and their related parts and structures in Europe had a market size of approximately US\$1,032 million, reaching US\$2,378 million and US\$2,773 million in 2008 and 2009 respectively. In 2010, the timber villas, sheds and their related parts and structures in Europe had a market size of approximately US\$3,558 million. Such market size had further increased to US\$4,308 million in 2011.

II. **Forecast of Market Size in International Timber Villas, Sheds together with their Related Parts and Structures for 2012-2016**

Market Size Forecast of Timber Villas, Sheds together with their Related Parts and Structures in the Major Regions of the World for 2012-2016
US\$ million



Source: ZhongAn Consultant

i) *Forecast of Market Size in Asia Pacific (exclusive of the PRC)*

The market size of timber villas, sheds and their related parts and structures in the Asia Pacific (exclusive of the PRC) is expected to maintain its growth from 2012 to 2016. The timber villas, sheds and their related parts and structures in the Asia Pacific (exclusive of the PRC) are expected to reach a market size of approximately US\$2,216 million in 2012 and US\$4,071 million in 2016.

ii) *Forecast of Market Size in North America*

The market size for timber villas, sheds and their related parts and structures in North America is expected to maintain its growth from 2012 to 2016, reaching approximately US\$3,556 million in 2012 and US\$6,576 million in 2016 respectively.

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iii) *Forecast of Market Size in Europe*

The market size for timber villas, sheds together with their related parts and structures, in Europe is expected to maintain its growth from 2012 to 2016, reaching approximately US\$5,075 million in 2012 and US\$9,387 million in 2016 respectively.

Forecast of the Market Sizes of the Major European Countries' Timber Villas, Sheds together with their Related Parts and Structures for 2012 to 2016
US\$ million

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|----------------|-------|-------|-------|-------|-------|
| Germany | 1,072 | 1,249 | 1,385 | 1,724 | 1,898 |
| Britain | 703 | 840 | 949 | 1,131 | 1,301 |
| France | 819 | 957 | 1,103 | 1,318 | 1,481 |
| Italy | 635 | 751 | 884 | 1,022 | 1,187 |
| Spain | 453 | 521 | 594 | 729 | 814 |

Source: ZhongAn Consultant

B. Market Analysis for the PRC's Timber Villas, Sheds together with their Related Parts and Structures for 2006-2011

I. Production and Sales Analysis for the PRC's timber villas, sheds and their related parts and structures

The industry for the PRC's timber villas, sheds together with their related parts and structures, has maintained rapid growth for 2006 to 2011. In 2011, the total industry output value and the income from principal business of the industry amounted to RMB6,856 million and RMB6,850 million respectively.

Production and Sales Position of the Industry for the PRC's Timber Villas, together with their Related Parts and Structures for 2006-2010
RMB million

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---------------------------------------|-------|-------|-------|-------|-------|-------|
| Income from principal business | 1,907 | 3,009 | 3,616 | 4,599 | 5,795 | 6,850 |
| Total industrial output value | 1,356 | 3,145 | 3,934 | 4,648 | 5,811 | 6,856 |

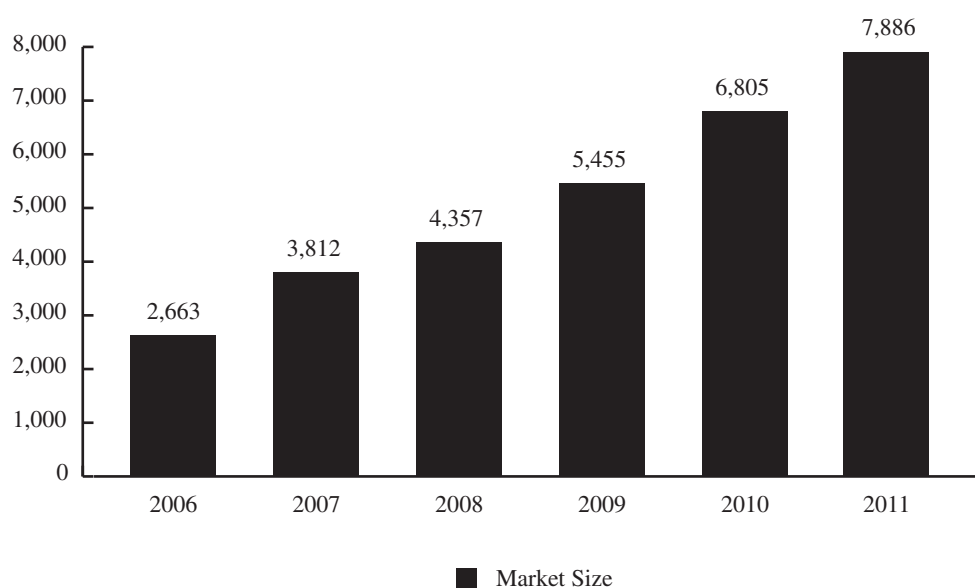
Source: ZhongAn Consultant

INDUSTRY OVERVIEW

II. Demand Analysis for the PRC's Timber Villas, Sheds and their Related Parts and Structures

The market size for PRC timber villas, sheds together with their related parts and structures, has maintained rapid growth for 2006 to 2011. In 2011, the market size of PRC timber villas, together with their related parts, amounted to RMB7,886 million.

**Market Size for the PRC's Timber Villas, Sheds together with their
Related Parts and Structures for 2006-2011**
RMB million



Source: ZhongAn Consultant

III. Import and Export Analysis of the PRC's Timber Villas, Sheds and their Related Parts and Structures

In 2011, the export value of the PRC's timber villas sheds and their related parts, and structures industry was approximately RMB349 million and the import value was approximately RMB1,385 million. The import of timber villas was mainly from North America.

**Import and Export of the Industry of the PRC's Timber Villas, Sheds and their
Related Parts and Structures for 2006-2011**
RMB million

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|------------------------------|------|-------|------|-------|-------|-------|
| Export delivery value | 189 | 297 | 181 | 227 | 279 | 349 |
| Imports | 946 | 1,100 | 923 | 1,082 | 1,290 | 1,385 |

Source: ZhongAn Consultant

INDUSTRY OVERVIEW

IV. Market Forecast of the PRC's Timber Villas Sheds and their Related Parts and Structures for 2012-2016

i) *Production and Sales Forecast of the PRC's Timber Villas Sheds and their Related Parts and Structures*

The industry of the PRC's timber villas, sheds and their related parts and structures, is expected to maintain rapid growth for 2012 to 2016. It is expected that the total industry output value and the income from principal business of the industry will respectively achieve RMB8,077 million and RMB8,021 million in 2012.

**Production and Sales Forecast of the
Industry of the PRC's Timber Villas Sheds and
their Related Parts and Structures for 2012-2016
RMB million**

| | 2012E | 2013E | 2014E | 2015E | 2016E |
|---------------------------------------|-------|-------|--------|--------|--------|
| Income from principal business | 8,021 | 9,409 | 10,982 | 12,835 | 14,786 |
| Total industrial output value | 8,077 | 9,458 | 11,009 | 12,991 | 14,939 |

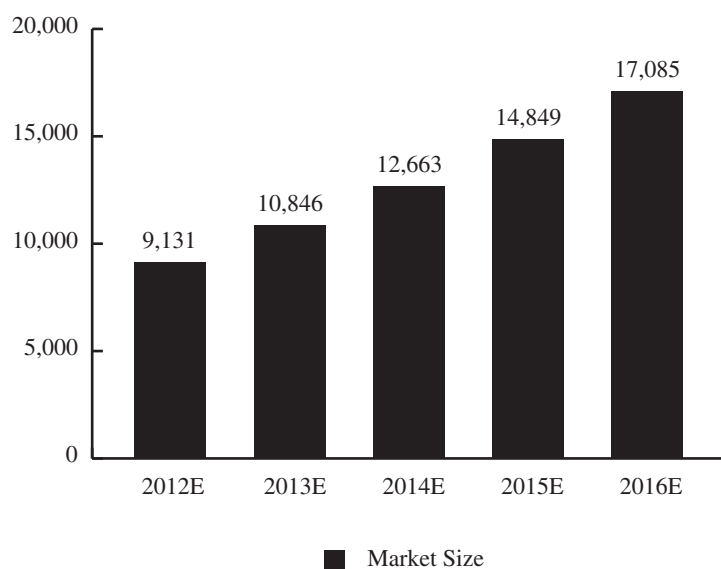
Source: ZhongAn Consultant

INDUSTRY OVERVIEW

ii) *Demand Forecast of the PRC's Timber Villas, Sheds and their Related Parts and Structures*

The market size of the PRC's timber villas, sheds and their related parts and structures, industry will maintain rapid growth from 2012 to 2016. The market size is expected to achieve RMB9,131 million in 2012 and RMB17,085 million in 2016.

**Market Size Forecast of the PRC's Timber Villas Sheds and their
Related Parts and Structures for 2012-2016**
RMB million



Source: ZhongAn Consultant

INDUSTRY OVERVIEW

iii) *Import and Export Forecast of the PRC's Timber Villas, Sheds and their Related Parts and Structures*

In 2012, the export value of the industry of the PRC's timber villas, sheds and their related parts and structures is expected to achieve RMB422 million and the import value is expected to achieve RMB1,532 million respectively. For a long period in the future, the import of timber villas, sheds and their related parts and structures will remain high.

The Import and Export Forecast of the PRC's Timber Villas, Sheds and their Related Parts and Structures for 2012-2016 RMB million

| | 2012E | 2013E | 2014E | 2015E | 2016E |
|------------------------------|-------|-------|-------|-------|-------|
| Export delivery value | 422 | 515 | 654 | 832 | 1,040 |
| Imports | 1,532 | 1,952 | 2,335 | 2,846 | 3,338 |

Source: ZhongAn Consultant

ANALYSIS AND FORECAST OF INTERNATIONAL AND DOMESTIC LEISURE HOUSEHOLD PRODUCTS MARKET

A. Definition

Timber-made leisure household products are timber products for outdoor or indoor leisure and recreational use. Timber-made leisure household products include (1) timber-made recreational products; (2) timber-made landscape garden products; (3) timber-made outdoor and indoor furniture products; and (4) timber-made pet-home designs.

B. Analysis and Forecast of International Timber-made Leisure Household Products Market

I. International Timber-made Leisure Household Products Market Development Overview

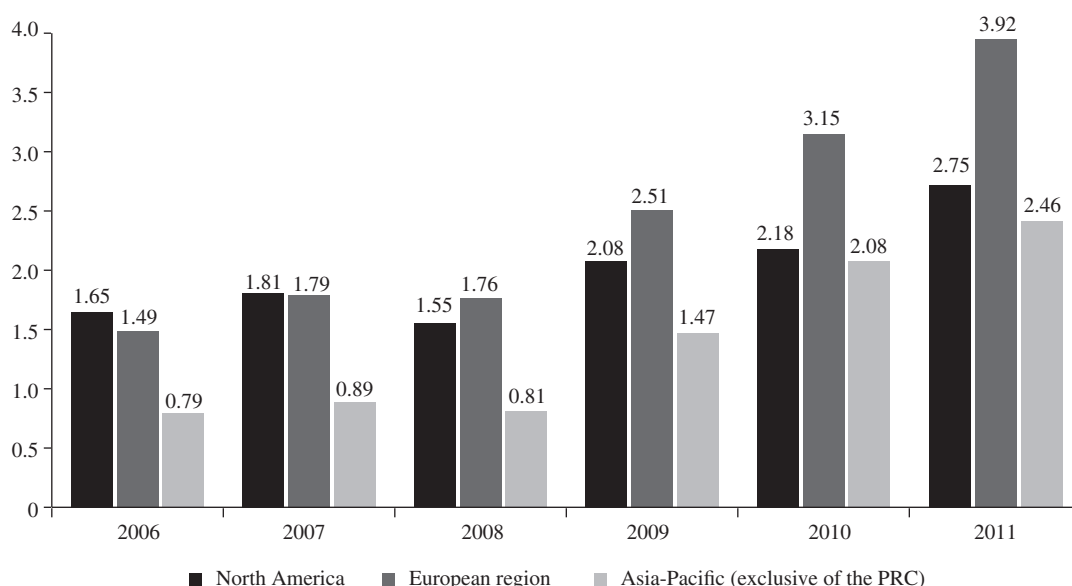
Entering into the 21st century, the international timber-made leisure household products industry has experienced fast development, with the major markets focusing on Asia Pacific (exclusive of the PRC), North America and Europe. With the rise of emerging economies, the pace of development of timber-made leisure household products industry in some countries, such as the PRC, India and Brazil attracts worldwide attention.

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II. Analysis and Forecast of Timber-made Recreational Products Market in the Major Regions of the World for 2006-2016

Over the past few years, the timber-made recreational products market in the major regions of the world has maintained growth momentum. In 2006, the market size for timber-made recreational products in the three regions, namely North America, Europe and Asia-Pacific (exclusive of the PRC), recorded US\$165 million, US\$149 million and US\$79 million and increased to US\$275 million, US\$392 million and US\$246 million by 2011, respectively. In the past few years, the inter-regions in North America did not maintain rapid growth, while Europe outperformed North America from 2008 to become the largest market in the world. The timber-made recreational products market in Asia-Pacific (exclusive of the PRC) experienced remarkable growth between 2006-2011, with the market size which was comparable with that of in North America recorded US\$246 million in 2011.

**Market Sizes of the World's Major Regions' Timber-made Recreational Products
for 2006 to 2011 (excluding the PRC)
USD 100 million**

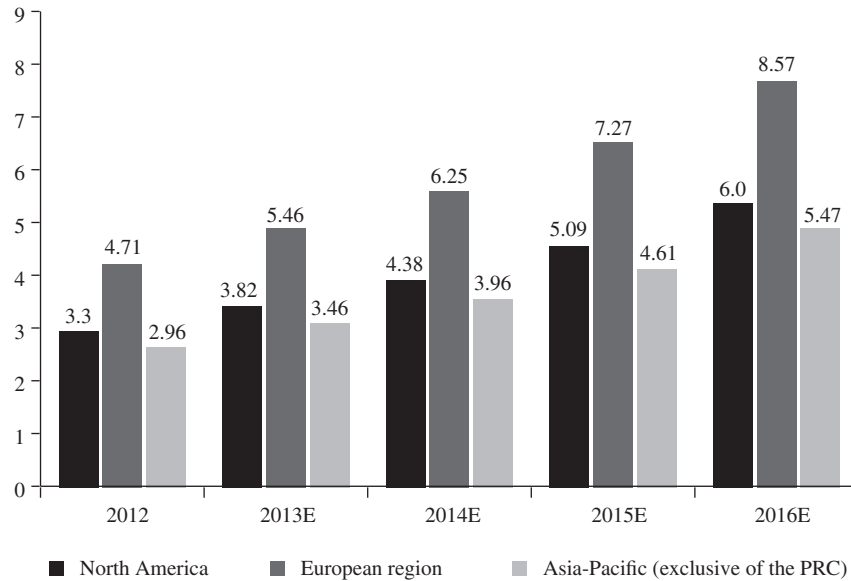


Source: ZhongAn Consultant

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In the next few years, the global timber-made recreational products market will continue to grow. Europe will remain the world's largest timber-made recreational products market. It is expected that the market size will reach US\$857 million in Europe, US\$600 million in North America and US\$547 million in the Asia-Pacific (exclusive of the PRC) by 2016.

Forecast of the Market Sizes of the World's Major Regions' Timber-made Recreational Products for 2012 to 2016 (excluding the PRC)
USD 100 million



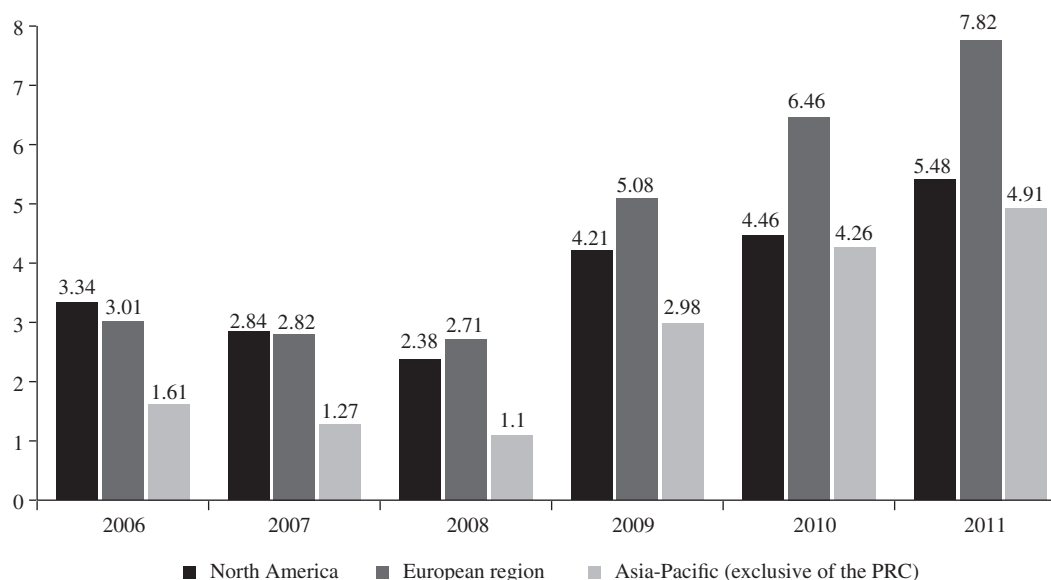
Source: ZhongAn Consultant

INDUSTRY OVERVIEW

III. Analysis and Forecast of Timber-made Landscape Garden Products Market in the Major Regions of the World for 2006-2016

For the landscape garden leisure furniture products market, the market size in North America, Europe and Asia-Pacific (exclusive of the PRC) recorded US\$334 million, US\$301 million and US\$161 million in 2006 and increased to US\$548 million, US\$782 million and US\$491 million by 2011, respectively. Latterly, Europe outperformed others and become the world's largest timber-made landscape garden products market in 2011. In 2011, the market in Asia-Pacific (exclusive of the PRC) achieved a rapid growth, with a market size comparable with that of in North America.

Market Sizes of the World's Major Regions' Timber-made Landscape Garden Products for 2006 to 2011 (excluding the PRC)
USD 100 million

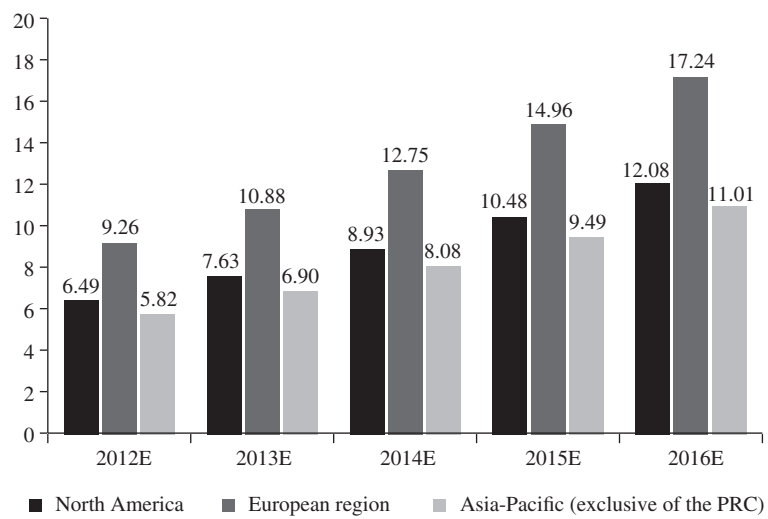


Source: ZhongAn Consultant

INDUSTRY OVERVIEW

In the next few years, the global timber-made landscape garden products market will continue to grow. Similarly to the leisure household products market, Europe will remain as the world's largest timber-made landscape garden products market in terms of the total market value, while the market size in Asia-Pacific (exclusive of the PRC) will be almost the same as that in North America. It is expected that the market size of timber-made landscape garden products will reach US\$1,724 million in Europe, US\$1,208 million in North America and US\$1,101 million in Asia-Pacific (exclusive of the PRC) by 2016.

Forecast of the Market Sizes of the World's Major Regions' Timber-made Landscape Garden Products for 2012 to 2016 (excluding the PRC)
USD 100 million



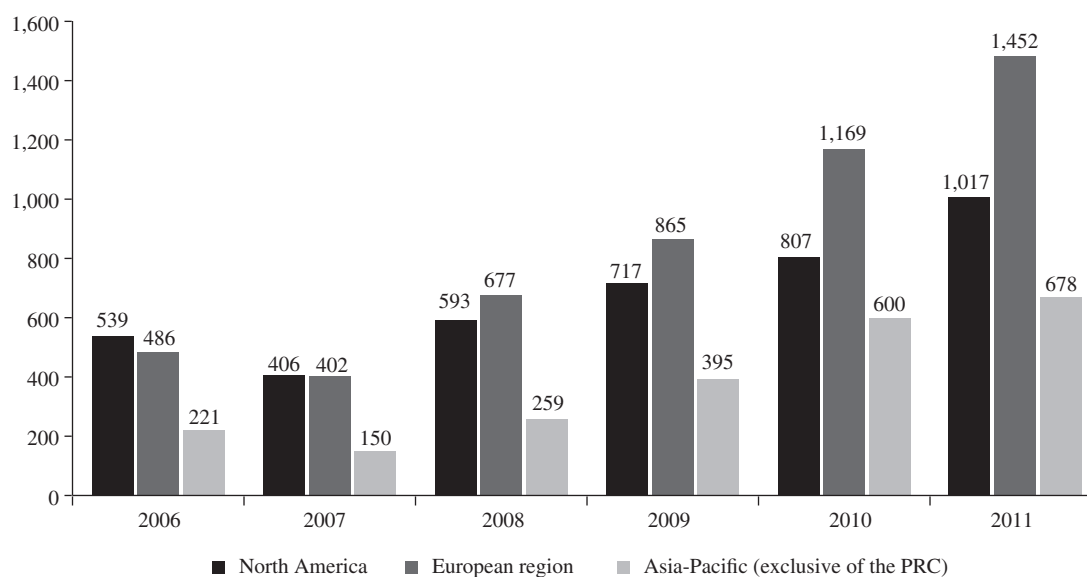
Source: ZhongAn Consultant

INDUSTRY OVERVIEW

IV. Market analysis and forecast of timber-made outdoor and indoor furniture in major parts of the world for 2006-2016

During 2006-2011, the global timber-made outdoor and indoor furniture market maintained growth momentum. In 2006, the size of the timber-made outdoor and indoor furniture market in North America region amounted to approximately US\$53.9 billion, which increased to US\$101.7 billion in 2011. The size of the timber-made furniture market in Europe amounted to approximately US\$48.6 billion in 2006, which increased to US\$145.2 billion in 2011. In Asia-Pacific (exclusive of the PRC), the timber-made furniture market showed rapid growth momentum, the market size was approximately US\$22.1 billion in 2006, and increased to US\$67.8 billion in 2011.

Market Sizes of the World's Major Regions' Timber-made Outdoor and Indoor Furniture for 2006 to 2011 (excluding the PRC)
USD 100 million

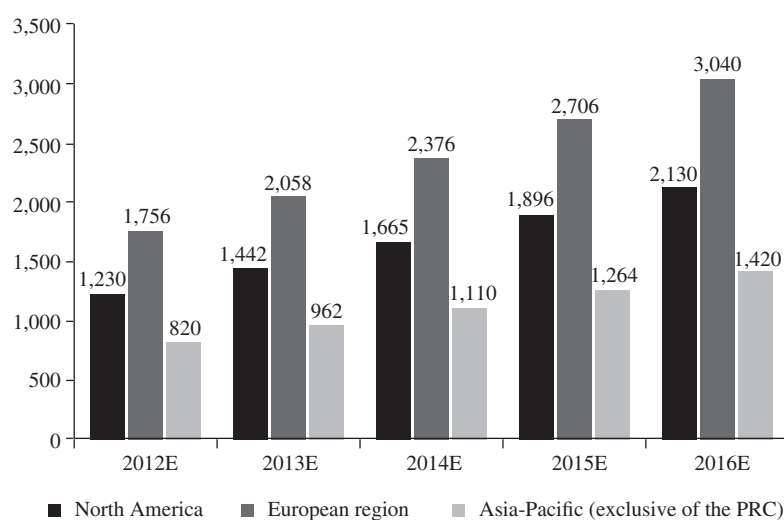


Source: ZhongAn Consultant

INDUSTRY OVERVIEW

In coming years, it is expected that the global timber-made furniture market will continue to grow, the specific drivers will include the global economy recovery, the gradual elimination of European debt crisis and the holding of London Olympic Games. It is expected that in 2011, the size of the timber-made outdoor and indoor furniture market in Europe, North America region and in Asia Pacific (exclusive of the PRC) will reach US\$175.6 billion, US\$123.0 billion and US\$82.0 billion respectively. Up to 2016, It is expected that the timber-made furniture market size in Europe, North America and Asia Pacific (exclusive of the PRC) will exceed US\$304 billion, US\$213 billion and US\$142 billion respectively.

**Forecast of the Market Sizes of the World's Major Regions' Timber-made
Outdoor and Indoor Furniture for 2012 to 2016 (excluding the PRC)
USD 100 million**



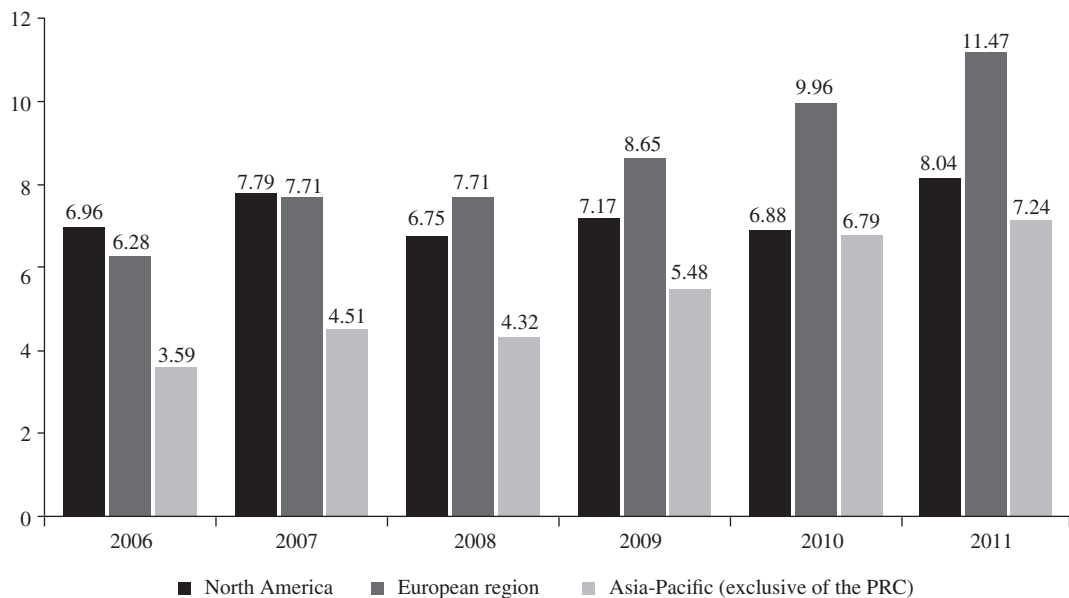
Source: ZhongAn Consultant

INDUSTRY OVERVIEW

V. Analysis and Forecast of Timber-made Pet-home Designs Market in the Major Regions of the World for 2006-2016

In 2006, the market size of the timber-made pet-home designs in the three regions, namely North America, Europe and Asia-Pacific (exclusive of the PRC), recorded US\$696 million, US\$628 million and US\$359 million and increased to US\$804 million, US\$1,147 million and US\$724 million by 2011, respectively. In 2011, Europe outperformed North America and became the largest timber-made pet-home designs market in the world. The market size of Asia-Pacific (exclusive of the PRC) has reached a considerable size to that of North America.

**Market Sizes of the World's Major Regions' Timber-made Pet-home Designs
for 2006 to 2011 (excluding the PRC)
USD 100 million**

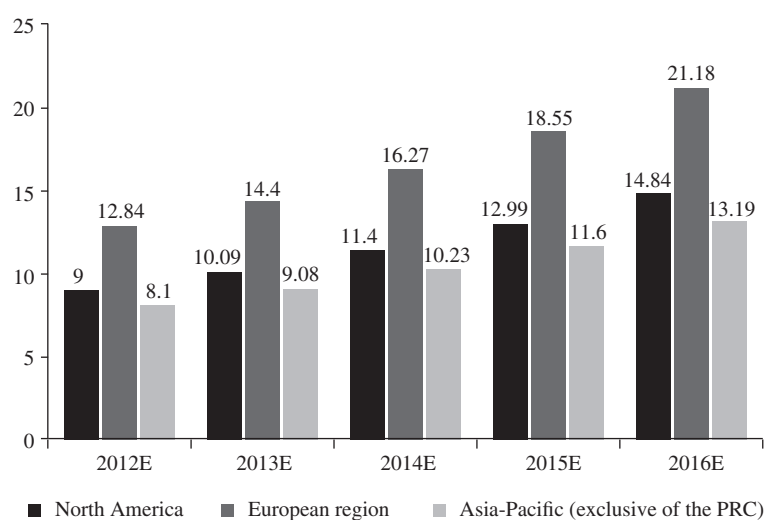


Source: ZhongAn Consultant

INDUSTRY OVERVIEW

In the next few years, the global pet-home designs market is expected to continue to grow, and timber-made pet-home designs market will continue to grow accordingly. The growth for each region will be similar with that in 2011. It is expected that the market size of timber-made pet-home designs will reach US\$2,118 million in Europe, US\$1,484 million in North America and US\$1,319 million in Asia-Pacific (exclusive of the PRC) by 2016.

Forecast of the Market Sizes of the World's Major Regions' Timber-made Pet-home Designs for 2012 to 2016 (excluding the PRC)
USD 100 million



Source: ZhongAn Consultant

C. Industrial and market analysis of the PRC timber-made leisure household products

I. Industry and market characteristics

i) *Characteristics of the PRC leisure household products industry*

In general, the PRC leisure household products industry has the following characteristics: there are many enterprises in this industry, of which landscape garden companies, timber-made (metal, plastic) products and furniture manufacturers coexist and compete; each individual enterprise has small size and weak competitiveness; the industry is not highly concentrated, and there is a lack of leading enterprises. In terms of product quality, the PRC leisure household products industry has comparable technology level as compared to similar products abroad.

INDUSTRY OVERVIEW

II. Industry and market analysis of the PRC timber-made recreational products

i) Market analysis of the PRC timber-made recreational products market analysis for 2006-2011

Production and sales analysis of the PRC timber-made recreational products

In 2011, the total industrial output value of the PRC timber-made recreational products industry reached RMB624 million, the income from principal business was RMB588 million.

Production and sales of PRC timber-made recreational products for 2006-2011 RMB million

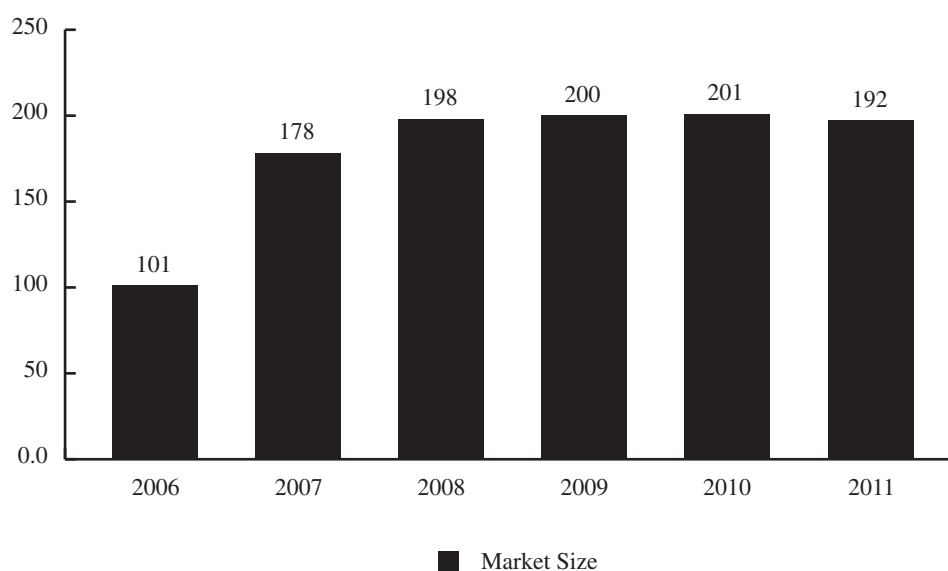
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---------------------------------------|------|------|------|------|------|------|
| Income from principal business | 174 | 228 | 217 | 392 | 485 | 588 |
| Total industrial output value | 196 | 258 | 218 | 421 | 515 | 624 |

Source: National Bureau of Statistics of the PRC and ZhongAn Consultant

Demand analysis of the PRC timber-made recreational products

The market size of the PRC timber-made recreational products was RMB192 million in 2011, in contrast to only RMB101 million in 2006.

Market size of the PRC timber-made recreational products for 2006-2011 RMB million



Source: ZhongAn Consultant

INDUSTRY OVERVIEW

Import & export analysis of the PRC timber-made recreational products

In 2011, the export delivery value of the PRC timber-made recreational products was approximately RMB497 million, and the import value was RMB66 million monthly. The recreational timber-made leisure household products were mainly exported abroad, as there were less demand of them within PRC.

Import & Export of the PRC timber-made recreational products for 2006-2011 RMB million

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|------------------------------|------|------|------|------|------|------|
| Export delivery value | 81 | 56 | 24 | 254 | 362 | 497 |
| Imports | 8 | 7 | 3 | 33 | 48 | 66 |

Source: National Bureau of Statistics of the PRC and ZhongAn Consultant

ii) **Market forecast of the PRC timber-made recreational products market for 2012-2016**

Production and sales forecast of the PRC timber-made recreational products

In 2012, it is expected that the total industrial output value and the income from principal business of the PRC timber-made recreational products will achieve RMB749 million and RMB706 million respectively.

The production and sales forecast of the PRC timber-made recreational products industry for 2012-2016 RMB million

| | 2012E | 2013E | 2014E | 2015E | 2016E |
|---------------------------------------|-------|-------|-------|-------|-------|
| Income from principal business | 706 | 819 | 938 | 1,091 | 1,319 |
| Total industrial output value | 749 | 869 | 995 | 1,157 | 1,363 |

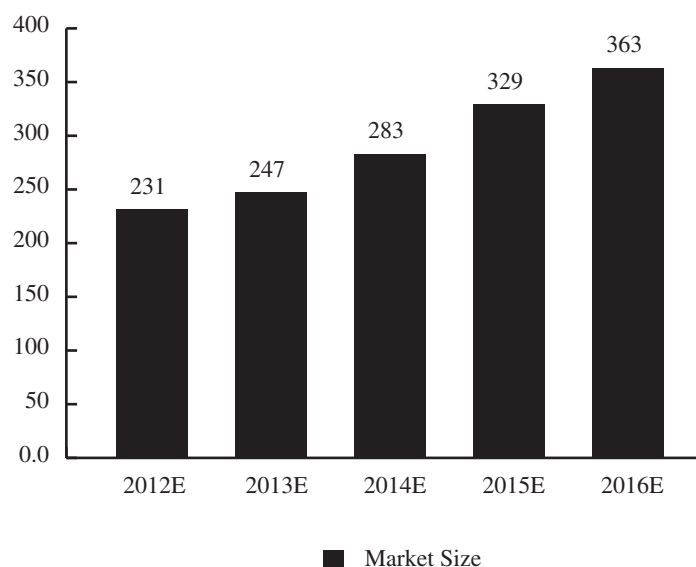
Source: ZhongAn Consultant

INDUSTRY OVERVIEW

Demand forecast of the PRC timber-made recreational products

The market size of PRC timber-made recreational products is expected to be approximately RMB231 million in 2012 and RMB363 million in 2016.

Market size forecast of the PRC timber-made recreational products for 2012-2016
RMB million



Source: ZhongAn Consultant

Import and export forecast of the PRC timber-made recreational products

In 2012, the export delivery value of the PRC timber-made recreational products is expected to achieve RMB597 million and the import value is expected to achieve RMB79 million respectively.

Import and Export Forecast of the PRC timber-made recreational products for 2012-2016
RMB million

| | 2012E | 2013E | 2014E | 2015E | 2016E |
|------------------------------|-------|-------|-------|-------|-------|
| Export delivery value | 597 | 716 | 820 | 954 | 1,153 |
| Imports | 79 | 95 | 108 | 126 | 152 |

Source: ZhongAn Consultant

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III. Industry and Market analysis of the PRC timber-made landscape garden products

i) Market analysis of the PRC timber-made landscape garden products for 2006-2011

Production and Sales Analysis of the PRC timber-made landscape garden products

In 2011, the total industrial output value and the income from principal business of the PRC timber-made landscape garden products will achieve approximately RMB1,244 million and RMB1,173 million respectively.

Production and sales of the PRC timber-made landscape garden products for 2006-2011 RMB million

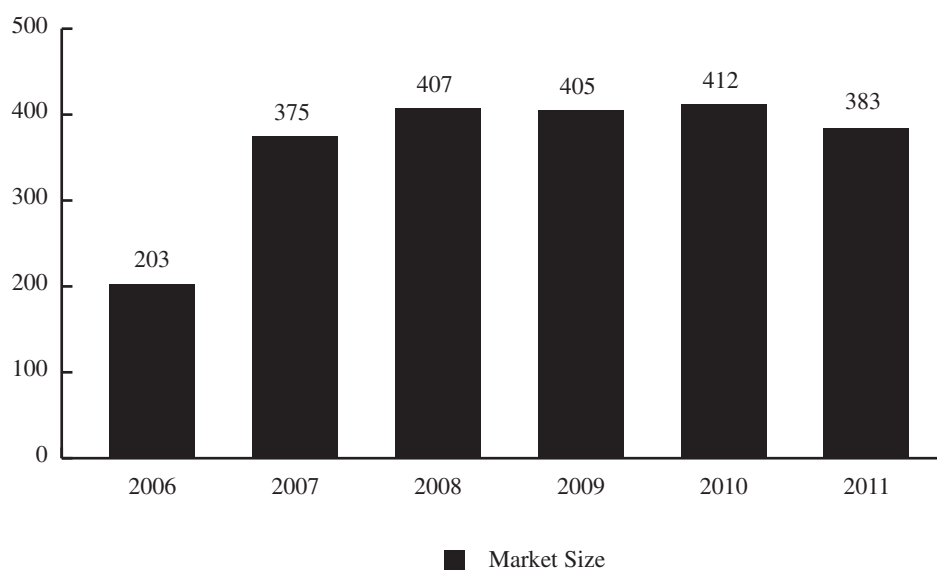
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---------------------------------------|------|------|------|------|-------|-------|
| Income from principal business | 351 | 480 | 448 | 793 | 994 | 1,173 |
| Total industrial output value | 396 | 544 | 449 | 851 | 1,055 | 1,244 |

Source: National Bureau of Statistics of the PRC and ZhongAn Consultant

Demand analysis of the PRC timber-made landscape garden products

In 2011, the market size of the PRC timber-made landscape garden products amounted to approximately RMB383 million, significantly increased from RMB203 million in 2006.

The market size of the PRC timber-made landscape garden products for 2006-2011 RMB million



Source: ZhongAn Consultant

INDUSTRY OVERVIEW

Import and export analysis of the PRC timber-made landscape garden products

In 2011, the export delivery value of the PRC timber-made landscape garden products was approximately RMB991 million and the import value was approximately RMB131 million respectively.

Import and export of the PRC timber-made landscape garden products for 2006-2011 RMB million

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|------------------------------|------|------|------|------|------|------|
| Export delivery value | 164 | 119 | 49 | 513 | 741 | 991 |
| Imports | 16 | 14 | 7 | 67 | 98 | 131 |

Source: National Bureau of Statistics of the PRC and ZhongAn Consultant

ii) **Market forecast of the PRC timber-made landscape garden products for 2012-2016**

Production and sales forecast of the PRC timber-made landscape garden products

In 2012, the total industry output value and the income from principal business of the industry is expected to amount to RMB1,473 million and RMB1,389 million respectively.

Production and sales forecast of the PRC timber-made landscape garden products industry (2012-2016) RMB million

| | 2012E | 2013E | 2014E | 2015E | 2016E |
|---------------------------------------|-------|-------|-------|-------|-------|
| Income from principal business | 1,389 | 1,633 | 1,913 | 2,245 | 2,653 |
| Total industry output value | 1,473 | 1,732 | 2,028 | 2,381 | 2,743 |

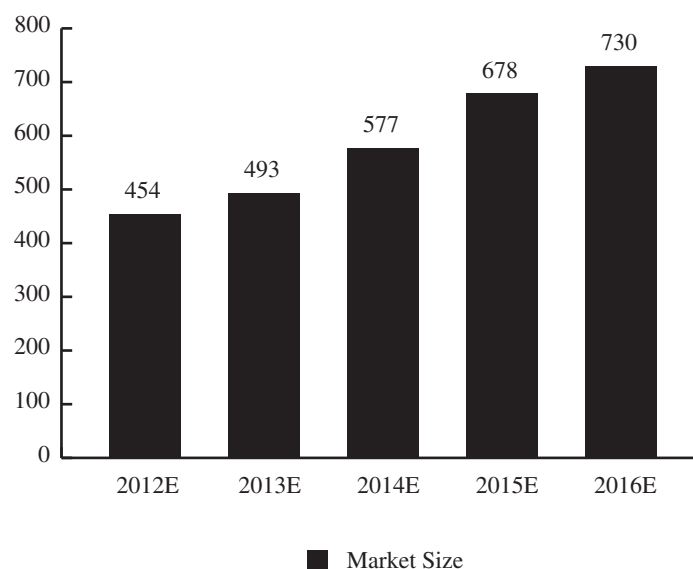
Source: ZhongAn Consultant

INDUSTRY OVERVIEW

Demand forecast of the PRC timber-made landscape garden products

The PRC market size is expected to achieve RMB454 million in 2012 and RMB730 million in 2016, as the domestic market becomes increasingly valued.

Market size forecast of the PRC timber-made landscape garden products for 2012-2016
RMB million



Source: ZhongAn Consultant

Import and export forecast of the PRC timber-made landscape garden products

In 2012, the export delivery value of the industry of the PRC timber-made landscape garden products is expected to achieve RMB1,174 million and the import value is expected to achieve RMB155 million respectively and the export delivery value of the industry is expected to reach RMB2,319 million in 2016.

Import and export forecast of the PRC timber-made landscape garden products for 2012-2016
RMB million

| | 2012E | 2013E | 2014E | 2015E | 2016E |
|------------------------------|-------|-------|-------|-------|-------|
| Export delivery value | 1,174 | 1,428 | 1,672 | 1,963 | 2,319 |
| Imports | 155 | 188 | 221 | 259 | 306 |

Source: ZhongAn Consultant

INDUSTRY OVERVIEW

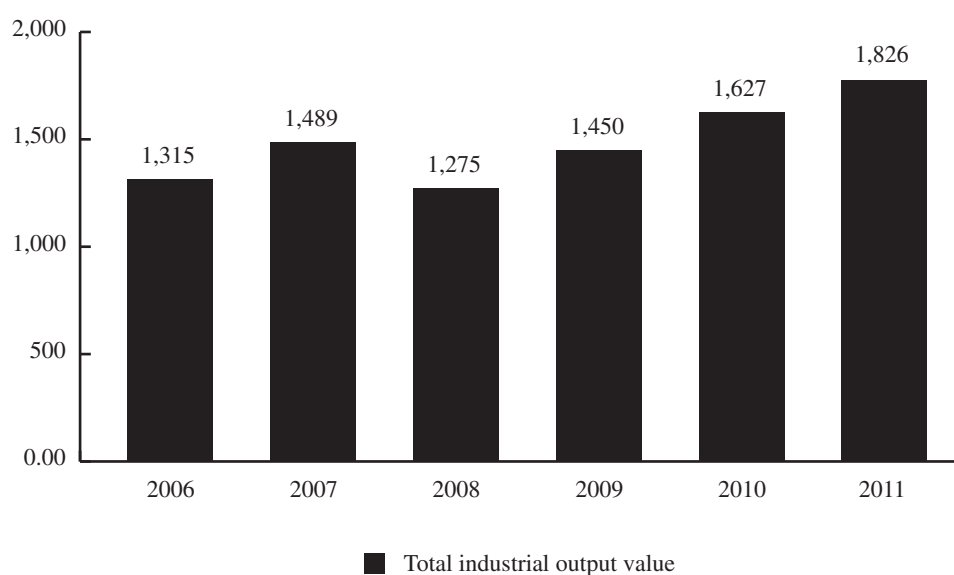
IV. Industry and market analysis of the PRC timber-made pet-home designs products

i) *Market analysis of the PRC timber-made pet-home designs products for 2006-2011*

Production and sales analysis of the PRC timber-made pet-home designs products

From 2006 to 2011, the PRC timber-made pet-home designs products industry maintained a steady growth. In 2011, the total industry output value amounted to approximately RMB1,826 million, representing an increase of RMB199 million as compared to 2010.

**Total industry output value of the PRC timber-made
pet-home designs products for 2006-2011**
RMB million



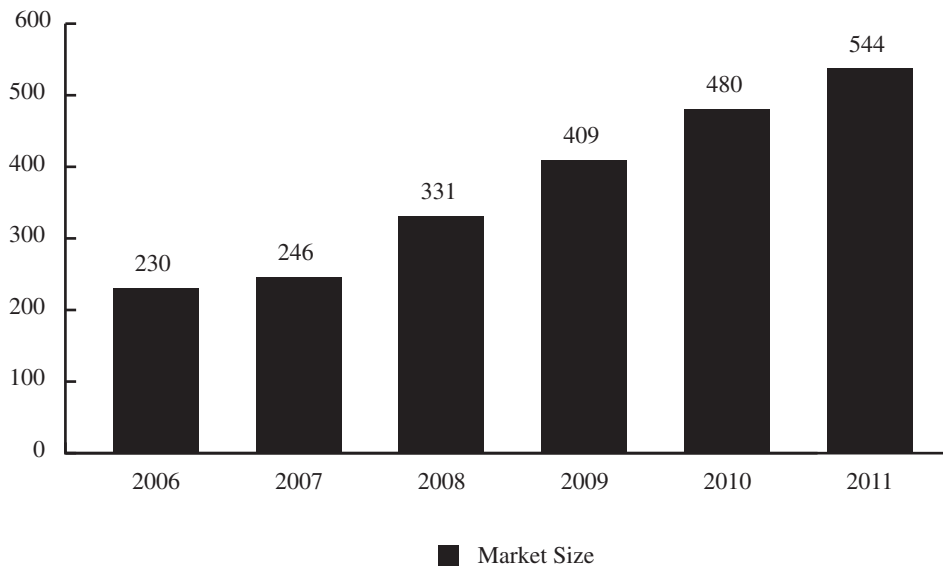
Source: *National Bureau of Statistics of the PRC and ZhongAn Consultant*

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Demand analysis of the PRC timber-made pet-home designs products

The market size of the PRC timber-made pet-home designs products was approximately RMB230 million in 2006, and increased to RMB544 million in 2011.

Market size of the PRC timber-made pet-home designs products for 2006-2011
RMB million



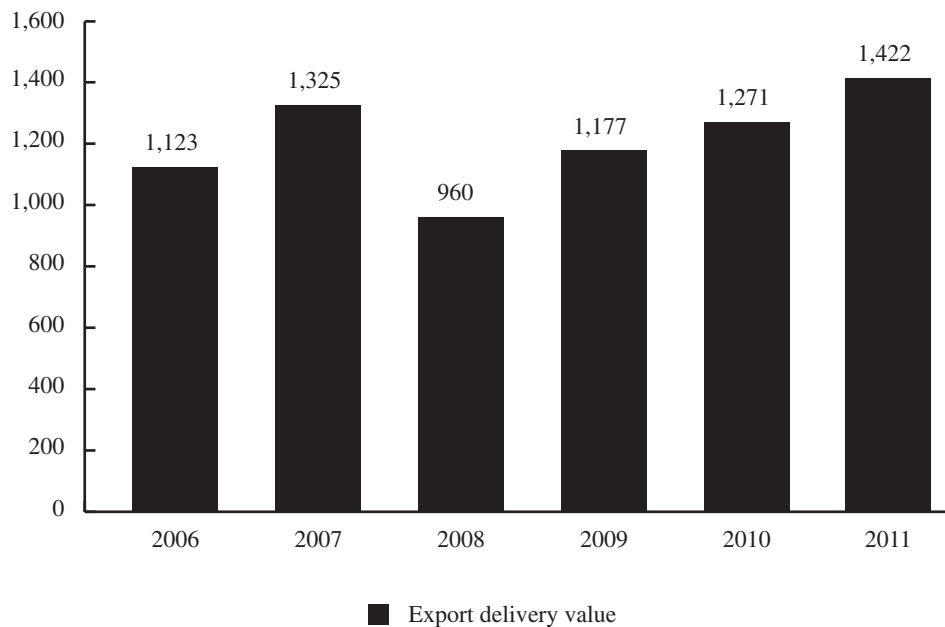
Source: ZhongAn Consultant

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Import and export analysis of the PRC timber-made pet-home designs products

From 2006 to 2011, the percentage of export delivery value in the total industrial output value of the PRC timber-made pet-home designs products will remain high. The export delivery value for the industry was approximately RMB1,123 million in 2006, and amount to RMB1,325 million in 2007, but decreased to RMB960 million in 2008 due to the financial crisis, and resumed RMB1,177 million in 2009 and further increased to RMB1,271 million and RMB1,422 million in 2010 and 2011 respectively.

Export delivery value of the PRC timber-made pet-home designs products industry for 2006-2011
RMB million



Source: National Bureau of Statistics of the PRC

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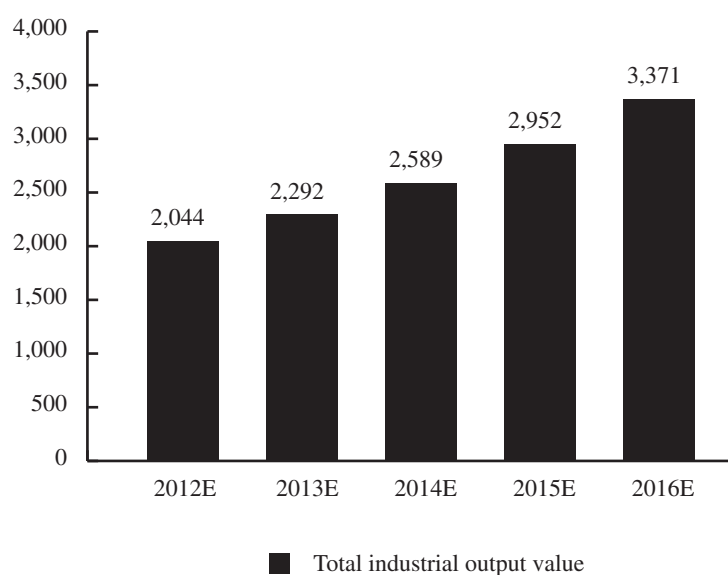
ii) *Market forecast of the PRC timber-made pet-home designs products for 2012-2016*

Production and sales forecast of the PRC timber-made pet-home designs products

From 2012 to 2016, the PRC timber-made pet-home designs products industry is expected to maintain steady growth, and the total industrial output value is forecasted to achieve RMB2,044 million in 2012 and RMB3,371 million in 2016.

Total industrial output value of the PRC timber-made pet-home designs products for 2012-2016

RMB million



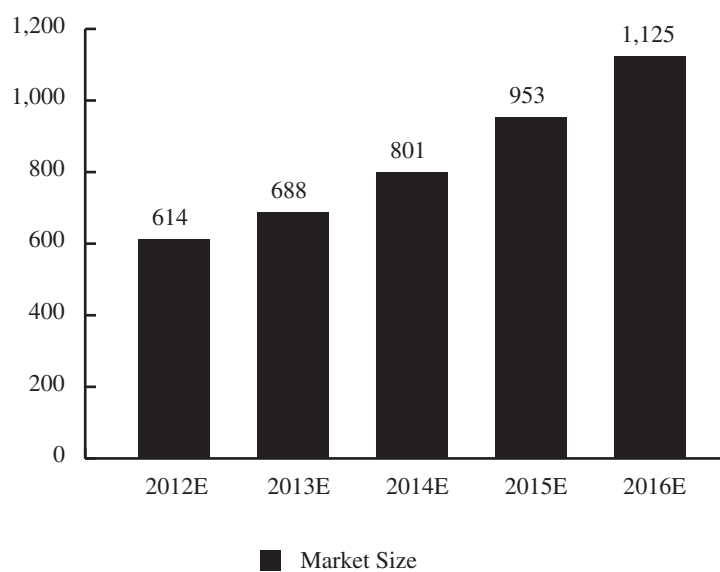
Source: ZhongAn Consultant

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Demand forecast of the PRC timber-made pet-home designs products

From 2012 to 2016, the market size of the PRC timber-made pet-home designs products industry is expected to further expand on the current base, and the market size is forecasted to achieve RMB614 million in 2012 and RMB1,125 million in 2016.

Market size forecast of the PRC timber-made pet-home designs products (2012-2016)
RMB million



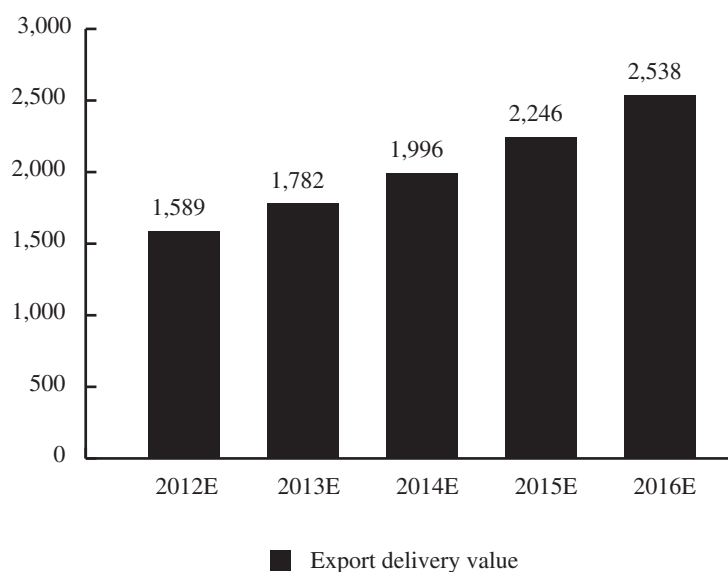
Source: ZhongAn Consultant

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Import and Export Analysis of the PRC timber-made pet-home designs products

From 2012 to 2016, the PRC timber-made pet-home designs products industry is expected to be dominated by exports as before. The export delivery value of the industry is expected to achieve RMB1,589 million in 2012 and RMB2,538 million in 2016.

Export delivery value forecast of the PRC timber-made pet-home designs products industry for 2012-2016
RMB million



Source: ZhongAn Consultant

V. Outdoor and Indoor Timber Furniture Industry and Market Analysis Industry Overview, Policy and Development Trends

i) *The PRC Furniture Industry Overview*

According to the National Economical Industry Classification (GB/T4754-2011) promulgated by the National Bureau of Statistics of the PRC, the industry code for the furniture manufacturing industry is 20, which means “being made of timber, metal, plastic, bamboo, cane and other materials, with walking, lean against, storage, and separate functions, can be used for manufacturing a variety of furnitures in any places, such as residential, hotels, offices, schools, restaurants, hospitals, theaters, parks, ships, aircraft and motor vehicles”.

The industry code for timber furniture manufacturing industry is 211 and 2110, which means “manufacturing a variety of furnitures mainly with natural timber and wood-based panels, together with other materials(such as paint, veneer materials, glass, hardware and accessories)”.

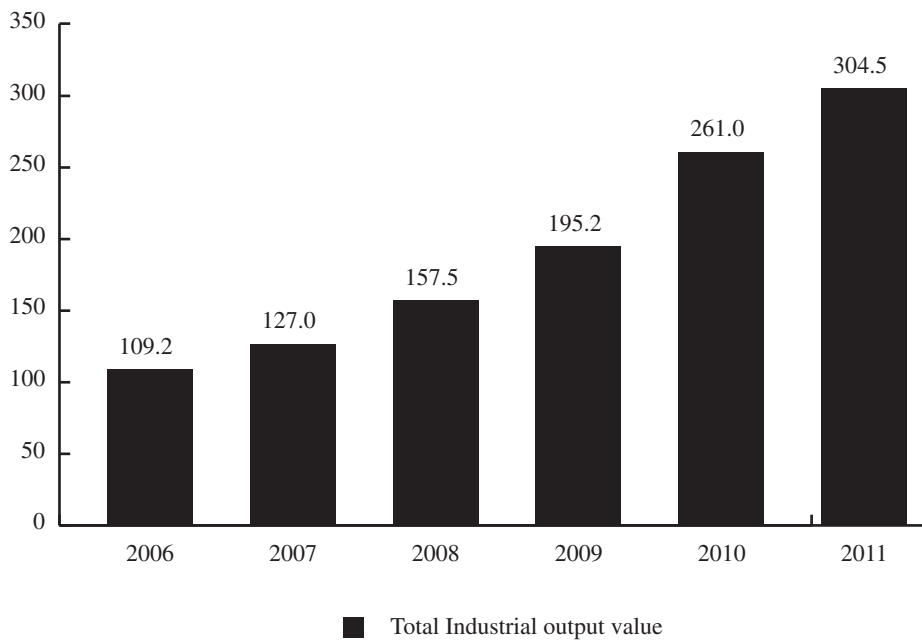
INDUSTRY OVERVIEW

VI. Analysis of the PRC Timber-made Outdoors and Indoors Furniture Market for 2006-2011

i) Analysis of the PRC Timber Furniture Industry Output Value

From 2006 to 2011, the timber furniture industry maintained a rapid growth in the PRC. In 2006, total output value of the industry was approximately RMB109.2 billion. In 2011, total output value of the industry was up to RMB304.5 billion.

**Total output value of the PRC timber
furniture industry for 2006-2011
RMB billion**



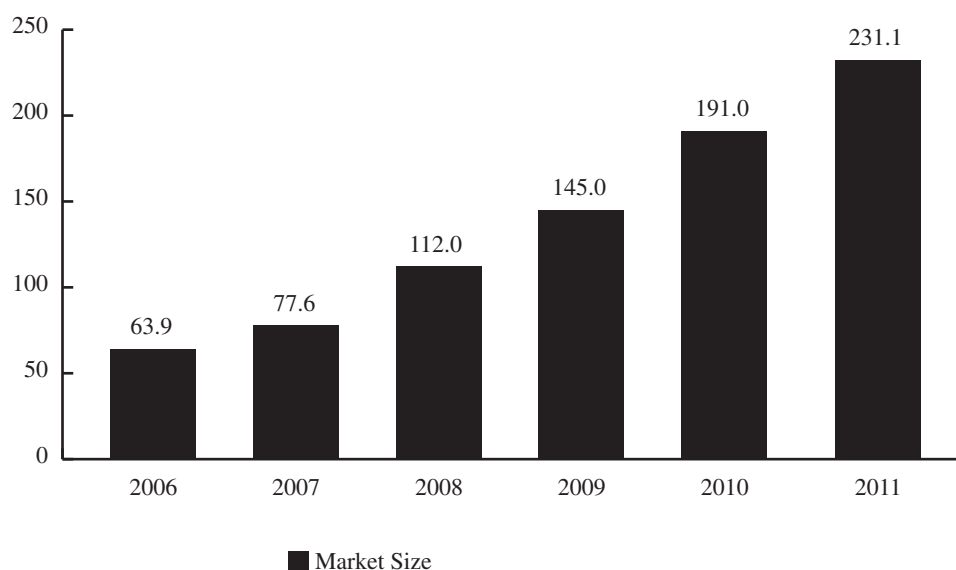
Source: China National Furniture Association and ZhongAn Consultant

INDUSTRY OVERVIEW

ii) *Analysis of the PRC Timber-made Outdoors and Indoor Furniture Market Demand*

From 2006 to 2011, the timber furniture market maintained a rapid growth in the PRC. In 2006, the market size of the PRC timber furniture was approximately RMB63.9 billion. In 2011, the market size had grown up to RMB231.1 billion.

Market size of the PRC timber furniture for 2006-2011
RMB billion



Source: ZhongAn Consultant

iii) *Analysis of the PRC Timber Furniture Import and Export*

From 2006 to 2011, exports of timber furniture products in the PRC was large, while the imports is relatively small. In 2011, industrial exports and imports amounted to approximately US\$11.2 billion and US\$392.4 million, respectively.

The PRC Timber Furniture Import and Export for 2006-2011
US\$ million

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|----------------|---------|---------|---------|---------|----------|----------|
| Imports | 90.7 | 173.1 | 240.1 | 231.4 | 280.3 | 392.4 |
| Exports | 5,751.2 | 6,641.6 | 6,827.6 | 7,587.5 | 10,557.2 | 11,160.5 |

Source: China National Furniture Association

INDUSTRY OVERVIEW

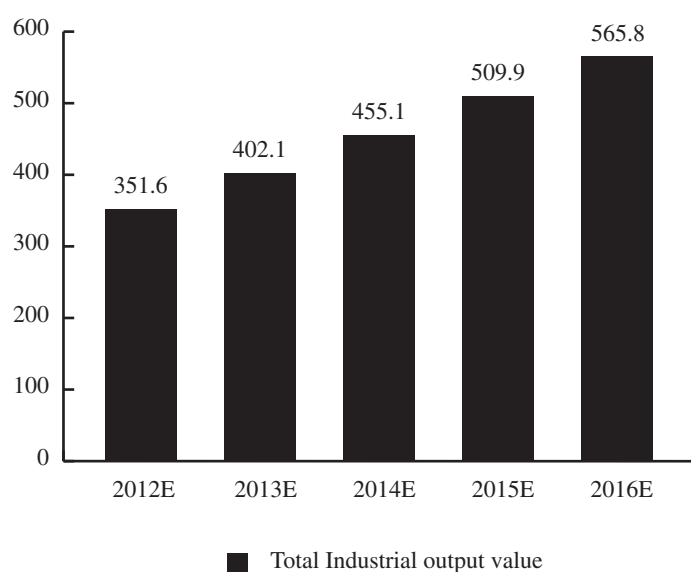
VII. Forecast of the PRC Timber-made Outdoors and Indoor Furniture market for 2012-2016

i) *Forecast of the PRC Timber made Furniture Industry Output Value*

From 2012 to 2016, it is expected that the timber made furniture industry in the PRC will continue to grow at a relatively rapid speed. It is expected that the total output value in 2012 and 2016 will be RMB351.6 billion and RMB565.8 billion, respectively.

Forecast of the PRC timber furniture industry total output value for 2012-2016

RMB billion



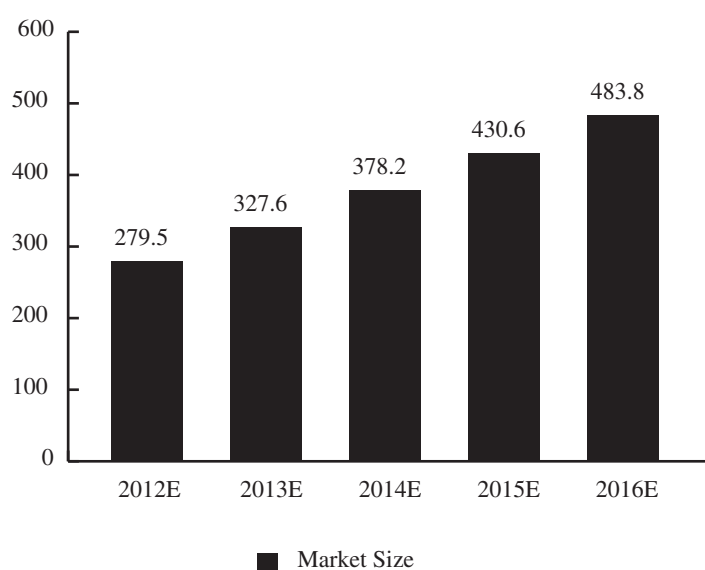
Source: ZhongAn Consultant

INDUSTRY OVERVIEW

ii) *Forecast of the PRC Timber Furniture Market Demand*

From 2012 to 2016, the timber furniture market size will continue to expand in the PRC. In 2012 and 2016, it is expected that the domestic market size will amount to RMB279.5 billion and RMB483.8 billion, respectively.

**Forecast of the PRC timber
furniture market size for 2012-2016
RMB billion**



Source: ZhongAn Consultant

iii) *Forecast of the PRC Timber Furniture Import and Export*

From 2012 to 2016, it is expected that the exports of timber furniture in the PRC will be larger than the imports. In 2012, it is expected that the industrial exports and imports will be approximately US\$11.0 billion and US\$385.8 million, respectively.

**Forecast of the PRC timber furniture import and export
for 2012-2016
US\$ million**

| | 2012E | 2013E | 2014E | 2015E | 2016E |
|----------------|----------|----------|----------|----------|----------|
| Imports | 385.8 | 398.3 | 411.1 | 424.4 | 438.1 |
| Exports | 10,972.5 | 11,326.9 | 11,692.9 | 12,070.6 | 12,460.6 |

Source: ZhongAn Consultant

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Sources of Information

We commissioned ZhongAn Consultant, an Independent Third Party, to prepare the report titled “Report on In-depth Market Research of China Timber Villas and Leisure Timber Household Products” (中國木結構房屋及木質休閒家居用品市場深度調研報告) (“ZhongAn Report”) for use in the “Industry Overview” section of this prospectus. We paid ZhongAn a total of RMB95,000 as the fee for preparing and updating the ZhongAn Report.

ZhongAn Consultant is a company established in 2007 which provides research and consultancy services. Its headquarters are located in Beijing and it has branches in Xiamen, Shanghai and Guangzhou.

The methodology adopted and used by ZhongAn Consultant involved conducting both primary and secondary research to obtain data on the timber made products industry from various sources. Primary research included interviewing industry participants and secondary research included analysing the quantitative and qualitative data available from the National Bureau of Statistics, the Food and Agriculture Organisation of the United Nations (FAO), the State Forestry Administration of the PRC, the State Intellectual Property Office of the PRC, a number of domestic and international trade and industry associations, independent experts and writers, and ZhongAn Consultant’s own proprietary database, respectively.

The forecast report was projected on the basis of historical data analyses, with reference to macroeconomic data as well as to specific industry-related drivers (i.e. GDP, historical industrial output data, import and export data, various PRC governmental policies including The Guideline Catalogue for Industrial Restructuring promulgated by the PRC government, PRC twelfth five-year plan for construction industry), ZhongAn Consultant developed its forecasts on the following bases and assumptions:

- Market size equals to Sales revenue (principal business revenue) plus Imports minus Exports (translated into the same currency units), the market size calculated by this method was also known as Apparent Consumption Level;
- Estimating the international market included analysis of the international market size of various products estimated by a model built on the basis of weighted production ratios of all global regions by converting the 2005-2010 production statistics of all global regions from the Database of Food and Agriculture Organisation of the United Nations (FAOSTAT) into relative weights;
- The report classified products into several major categories, including timber made products, timber villas, sheds and their related parts and structures, timber-made leisure household products (including timber-made recreational products, timber-made landscape garden products, timber-made pet home designs and timber-made outdoor and indoor furniture). Among these, industry codes were only available in the “Industry Classification of the National Economy (GB/T 4754-2011)” for the timber-made products industry (Industry Code 203) and the timber-made furniture industry (Industry Code 211), no corresponding codes for the remaining products were provided. Therefore, ZhongAn Consultant adopted an estimation method for evaluating the production value, major business income, export delivery value and import amount of products which were not given statistical codes (or where authoritative and reliable sources of information were not available). In the process of estimation, each category of products was treated as

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independent and unconnected products for the purposes of estimation, and excluded the circumstances under which a single enterprise could produce all of the above products. However, in terms of actual production, there may be some enterprises which only produce a particular sub-division of the above products.

- In forecasting the relevant information on market sizes, production values, major business incomes, export delivery values and import amounts, ZhongAn Consultant adopted an estimation method by which the growth rates for subsequent years was forecast in a floating manner, using the historical growth rates of the above data and the 2009-2010 growth rate as a benchmark with reference to the macroeconomic factors such as the policy factors and international economic environment. This forecasting method did not take into consideration external risks outside the industry such as the possibility of future economic crises and/or policy changes.

REGULATIONS

REGULATIONS

Incorporation, operation and management of Sino-Foreign Cooperative Venture

The incorporation, operation and management of a company in the PRC shall be subject to the Company Law of the PRC (中華人民共和國公司法) (the “Company Law”) which was promulgated by the Standing Committee of the National People’s Congress (the “SCNPC”) on 29 December 1993 and became effective on 1 July 1994. It was amended on 25 December 1999, 28 August 2004 and 27 October 2005 respectively. The Company Law mainly stipulates two kinds of corporations, i.e. limited liability company and joint stock limited company. Foreign investment company is also subject to the Company Law, unless otherwise specified by the foreign investment laws.

The establishment procedures, approval procedures, registered capital requirements, foreign exchange control, accounting, tax, employment and all other relevant matters of Sino-Foreign Cooperative Joint Ventures shall be subject to the Laws of the PRC on Sino-Foreign Cooperative Joint Ventures (中華人民共和國中外合作經營企業法) promulgated by the SCNPC on 13 April 1988 and amended on 31 October 2000. The Implementation Rules of the PRC Law on Sino-Foreign Cooperative Ventures (中華人民共和國中外合作經營企業法實施細則) were promulgated by the State Council on 4 September 1995.

Any investments conducted by the foreign investors and foreign enterprises in the PRC shall be subject to the Catalogue for the Guidance of Foreign Investment Industries(外商投資產業指導目錄) (the “Guidance Catalogue”), the latest version of which was promulgated by the Ministry of Commerce and the National Development and Reform Commission on 24 December 2011 and came into effect since 30 January 2012. The Guidance Catalogue was divided into the Encouraged Foreign Investment Industries, the Restricted Foreign Investment Industries and the Prohibited Foreign Investment Industries. Industries which are not listed in the Guidance Catalogue shall be classified as the Permitted Foreign Investment Industries.

The transformation from Sino-Foreign Cooperative Joint Venture to Wholly Foreign-owned Enterprise and the operation and management of Wholly Foreign-owned Enterprise

The transformation from Sino-Foreign Cooperative Joint Venture to Wholly Foreign-owned Enterprise shall be subject to the PRC Laws on Wholly Foreign Owned Enterprises (中華人民共和國外資企業法), the Implementation Rules of the PRC Laws on Wholly Foreign Owned Enterprises (中華人民共和國外資企業法實施細則) and Several Provisions for the Alternation of Investors’ Equities in Foreign Investment Enterprises (外商投資企業投資者股權變更的若干規定) The PRC Laws on Wholly Foreign Owned Enterprises were promulgated by the SCNPC on 12 April and amended on 31 October 2000. The Implementation Rules of the PRC Laws on Wholly Foreign Owned Enterprises were promulgated by the State Council on 12 December 1990 and revised on 12 April 2001. The Provisions for Transfer of Investors’ Equities in Foreign Investment Enterprises were promulgated by the Ministry of Foreign Trade and Economic Cooperation (which was formerly known as Ministry of Foreign Economy and Trade) and the SAIC on 28 May 1997.

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The approval procedures, registered capital requirements, foreign exchange control, accounting, tax, employment and all other relevant matters of a wholly foreign-owned enterprise shall be subject to the PRC Laws on Wholly Foreign Owned Enterprises and the Implementation Rules of the PRC Law on Wholly Foreign Owned Enterprises.

As our PRC subsidiaries (i.e. Zhangping Kimura, Merry Garden (Shanghai) and Merry Garden Wooden Structure) have (i) obtained the approval certificates and business licenses; (ii) duly took part in the joint annual examination on enterprises with foreign investment and passed the annual examination; (iii) paid up the registered capital which have been due according to the prescribed time limit; (iv) our Group's business does not fall under the restricted or prohibited categories of the Guidance Catalogue of Industries for the Foreign Investment; and (v) our Group has obtained the business license issued by Longyan Administration for Industry and Commerce for its branch store of Zhangping Kimura, therefore, PRC Legal Adviser confirmed that our Group has complied with all the requirements of the aforesaid PRC laws and regulations.

Foreign exchange

The foreign exchange control in the PRC is mainly regulated by the Administrative Regulations of the PRC on Foreign Exchange (中華人民共和國外匯管理條例), which were promulgated by the State Council on 29 January 1996, came into effect on 1 April 1996 and amended on 14 January 1997 and 5 August 2008 respectively. According to the aforesaid regulations, the RMB paying under current accounts (such as the foreign exchange transactions in relation to trading and service and the dividends payment) can be exchanged into foreign currency at liberty, but the exchange under capital accounts shall firstly obtain the approval from the foreign exchange administration.

As our PRC subsidiary, Zhangping Kimura as a foreign investment enterprise has already obtained the foreign exchange register certificate (i.e. the foreign exchange IC card) issued by Zhangping Branch of SAFE, and Merry Garden Wooden Structure and Merry Garden (Shanghai) as a enterprise invested by foreign investment enterprise in the PRC, is not required to procure the foreign exchange approval, our PRC Legal Adviser confirmed that our Group has complied with all the requirements of the aforesaid PRC laws and regulations.

Employment

We are subject to the PRC Labour Law (中華人民共和國勞動法) (the "PRC Labour Law"), the PRC Labour Contract Law (中華人民共和國勞動合同法) (the "Labour Contract Law") and the Implementations Regulations of the PRC Labour Contract Law (中華人民共和國勞動合同法實施條例) (the "Implementation of Labour Contract Law"), as well as other related regulations, rules and provisions issued by the relevant governmental authorities from time to time for our Group's operations in the PRC. The Labour Contract Law which became effective on 1 January 2008, calls for stricter requirements in human resources management in terms of signing labour contracts with employees, stipulating probation and violation penalties, dissolving labour contracts, paying remuneration and economic compensation, as well as social security premiums.

According to the PRC Labour Law and the Labour Contract Law, enterprises must enter into labour contracts if they intend to establish labour relationships with their employees. Enterprises must provide wages, which are no lower than the local minimum wage standards, to such employees and are required to establish labour safety and sanitation systems, strictly abide by PRC rules and standards and provide relevant training to the employees.

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In reviewing (i) the compliance certificates obtained by our PRC subsidiaries Zhangping Kimura and Merry Garden Wooden Structure from Zhangping City Labour and Social Safeguard Bureau, and (ii) the sample of the labor contract and confidentiality contract signed between the PRC subsidiaries of our Group (including Zhangping Kimura, Merry Garden Wooden Structure and Merry Garden (Shanghai)) and their respective employees, our PRC Legal Adviser confirmed that such labor and confidentiality contract samples were in compliance with relevant PRC Labor Laws, and our Group has complied with all the requirements of the aforesaid PRC laws and regulations.

Social Insurance Regulations and Housing Provident Fund Regulations

The social insurance are mainly governed by the Social Insurance Law of the People's Republic of China (中華人民共和國社會保險法) (the "Social Insurance Law"), the Interim Regulations on the Collection and Payment of Social Insurance Premium (社會保險費徵繳暫行條例), the Tentative Rules for Administration of Social Insurance Registration (社會保險登記管理暫行辦法) and the Regulations on Work-Related Injury Insurance (工傷保險條例). The Social Insurance Law was promulgated by the SCNPC on 28 October 2010 and came into effect on 1 July 2011. The Interim Regulations on the Collection and Payment of Social Insurance Premium were promulgated by the State Council and came into effect on 22 January 1999. The Tentative Rules on the Administration of Social Insurance Registration were promulgated by the Ministry of Labour and Social Security and came into effect on 19 March 1999. The Regulations on Work-Related Injury Insurance were promulgated by the SCNPC on 27 April 2003 and came into effect on 1 January 2004. According to aforesaid laws and regulations, employers in the PRC shall register social insurance with the competent authorities, and make contributions to the basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance for their employees.

According to the Administrative Regulations on Housing Provident Funds (住房公積金管理條例) promulgated by State Council and came into effect on 3 April 1999 and was afterwards amended on 24 March 2002, a unit (including a foreign investment enterprise) shall undertake the registration with the administrative center of housing provident funds and pay the funds for their staff. If an employer, in violation of the aforesaid regulations, fails to undertake registration or to open the housing provident funds account for its employees, the administrative center of housing provident funds will impose an order for completion within prescribed time limit, if such employer further fails to process within the aforesaid time limit, a fine ranging from RMB10,000 to RMB50,000 will be imposed. On the other hand, if a unit, in violation of the aforesaid regulations, fails to pay or to fully pay the housing provident funds, the administrative center of housing provident funds will impose an order for payment within a prescribed time limit if such unit further fails to make payment within the aforesaid time limit, the center shall have the right to apply for compulsory enforcement in court.

As advised by our PRC Legal Adviser, (i) Merry Garden (Shanghai) has fully paid up and completed the registration of the social insurance and housing provident fund, and (ii) Zhangping Kimura and Merry Garden Wooden Structure has also completed the registration of the social insurance, paid housing provident fund for our employees and obtained the non-penalties certificate from the Zhangping City Labour and Social Safeguard Bureau and the Zhangping Administration Department of Longyan City Housing Provident Fund Administration Centre. Whilst Zhangping Kimura and Merry Garden Wooden Structure had not fully complied with the social security and housing provident fund contribution requirements for our employees since some employees had no intention to participate in the social security and housing provident fund schemes as they either do not want to bear certain part of the social insurance premiums and housing provident fund contributions

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or have made contributions to the rural social insurance, we are advised by our PRC Legal Advisers that save for the disclosures in the paragraph headed “Legal proceedings and Compliance” under the “Business” section, our Group has complied with all other requirements of the aforesaid PRC laws and regulations.

Laws and Regulations Relating to PRC Taxation

(A) *Enterprise Income Tax*

According to the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) which was promulgated by the SCNPC on 16 March 2007 and came into effect on 1 January 2008, and the Implementation Regulations on the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法實施條例) which was promulgated by the State Council on 6 December 2007 and came into effect on 1 January 2008 (collectively “the New Tax Law”):

- (i) Resident enterprises shall pay enterprise income tax for income generated within and outside the PRC. Non-resident enterprises which have set up institutions or premises in the PRC shall pay enterprise income tax for income generated within the PRC through its institutions or premises and/or income generated outside the PRC but has actual relationship with such institutions or premises. Where the non-resident enterprise has not set up institutions or premises in the PRC, or where the institutions or premises are set up but the income has no actual relationship with such institutions or premises, the non-resident enterprise shall pay enterprise income tax for the income generated from the PRC.
- (ii) The rate of enterprise income tax shall be 25%. For High and New Technology enterprises which are focused and supported by the State, the enterprise income tax will be levied by the rate of 15%.
- (iii) Foreign enterprises shall pay a 10% income tax for its income after taxes generated from the foreign invested enterprise.

According to Arrangement between the Mainland of China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion With Respect To Taxes On Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) and its relevant regulations, dividends derived by a foreign investor residing in Hong Kong from its wholly owned PRC enterprise is subject to a tax rate of 5% provided that such foreign investor is the “beneficial owner” and holds 25% or more of the equity interest of the PRC enterprise.

Our subsidiary, Zhangping Kimura, is accredited as a High and New Technology enterprise in October 2010 for an initial period of 3 years for the financial years 2010, 2011 and 2012. The renewal of High and New Technology Enterprise accreditation of Zhangping Kimura will be on a 3 year basis after its expiry in 2012. As advised by our PRC Legal Adviser, there is no legal impediment for Zhangping Kimura to renew its High and New Technology enterprise accreditation according to the current applicable PRC laws and regulations, and the Directors are of the view that Zhangping Kimura should be able to renew its High and New Technology enterprise accreditation after its expiry in 2012.

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(B) *Business Tax*

According to Interim Regulations of the PRC on Business Tax (營業稅暫行條例) which was promulgated on 10 November 2008 and came into effect on 1 January 2009, businesses or individuals that provide services (including entertainment businesses), transfer intangible assets or sell immovable property are liable to business tax at a rate ranging from 3.0% to 20.0%. The amount of tax payable is calculated by multiplying the turnover with the aforesaid tax rate.

As our PRC subsidiary Zhangping Kimura has already obtained the “High and New Technology Enterprise Certificate” issued by Fujian Province Science and Technology Council, Fujian Financial Department, Fujian National Tax Bureau and Fujian Local Tax Bureau and the “Implementation Notice on Preferential Tax under Filing Category” issued by Zhangping National Tax Bureau, Zhangping Kimura was approved to enjoy a deducted enterprise income tax rate of 15% and an additional 50% deduction for tax computation over its research and development expenses in 2010. Further, our PRC subsidiaries (i.e. Zhangping Kimura and Merry Garden Wooden Structure) have obtained the compliance certificates issued by the tax bureau. Therefore, our PRC Legal Adviser confirmed that our Group has complied with all the requirements of the aforesaid PRC laws and regulations.

Environmental Protection

In accordance with the Environmental Protection Law of the PRC (中華人民共和國環境保護法) promulgated by the SCNPC on 26 December 1989, the Administration Supervisory Department of Environmental Protection of the State Council sets the national guidelines for the discharge of pollutants. The people’s governments of provinces, autonomous regions and municipalities directly under the central government may also set their own guidelines for the discharge of pollutants within their own provinces or districts in the event that the national guidelines are inadequate. On 29 November 1998, the State Council promulgated the Administrative Regulations on Environmental Protection for Construction Project (建設項目環境保護管理條例) and on 28 October 2002, the SCNPC promulgated the Environmental Impact Assessment Impact Law of the People’s Republic of China (中華人民共和國環境影響評價法).

A company or enterprise which causes environmental pollution and discharges other materials which endanger the public should implement environmental protection methods and procedures into their business operations. This may be achieved by setting up a system of accountability within the company’s business structure for environmental protection, adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials and noise arising from production, construction and other activities from polluting and endangering the environment. The environmental protection system and procedures should be implemented simultaneously with the commencement of and during the operation of construction, production and other activities undertaken by the company. Any company or enterprise which discharges environmental pollutants should report to and register with the Administration Supervisory Department of Environmental Protection and pay any fines imposed for the discharge. A fee may also be imposed on the company for the cost of any work required to restore the environment to its original state. Companies which have caused severe pollution to the environment are required to restore the environment or remedy the effects of the pollution within a prescribed time limit.

If a company fails to report and/or register the environmental pollution caused by it, it will receive a warning or be penalised. Companies which fail to restore the environment or remedy the

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effects of the pollution within the prescribed time limit will be penalised or have their production and operations ceased. Companies or enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as compensate for any losses or damages suffered as a result of such environmental pollution.

Although our PRC subsidiary, Zhangping Kimura, has commenced production at its factory plants before going through the procedure for completion inspection and acceptance and without obtaining the Permit to Discharge Pollution, Zhangping Kimura has passed the completion inspection conducted by Zhangping Environmental Protection Bureau on 20 January 2012 and obtained the Permits to Discharge Pollutant and the non-penalties certificate issued by the environmental protection bureau. According to the consultation with Zhangping Environmental Protection Bureau and Shanghai Environmental Protection Bureau made by our PRC Legal Adviser, Merry Garden Wooden Structure and Merry Garden (Shanghai) are not required to obtain the environmental protection approval nor go through the registration procedures as a non-manufacturing enterprise, which has no relation to the construction projects. Therefore, our PRC Legal Adviser confirmed that save for the disclosures made in the paragraph headed “Legal Proceedings and Compliance” under the section headed “Business” in this prospectus, our Group has complied with all the requirements of the aforesaid PRC laws and regulations.

Construction procedures

According to the Urban and Rural Planning Law of the PRC (中華人民共和國城鄉規劃法) (the “Urban and Rural Law”) which was promulgated by the SCNPC on 28 October 2007 and came into effect on 1 January 2008, where a construction entity without the land use permit is approved to use land, the people’s government at or above the county level shall cancel the approval document; if any land has been occupied, such land shall be returned promptly; and if any damage has been caused to a party concerned, compensation shall be made according to law. If a construction project is proceed without obtaining the planning permit on construction project or by violating the provisions of the planning permit on construction project, the competent department of the urban and rural planning of the local people’s government at or above the county level shall order it to stop the construction. If it is still possible for the construction entity or individual to take measures to eliminate the impact on the implementation of urban and rural planning, the department shall order it or him to correct within a certain time limit and impose a fine of not less than 5% the construction cost but not more than 10% the cost; if it is impossible to take measures to eliminate the impact, the department shall order the construction entity or individual to dismantle the building or structure within a certain time limit and confiscate the real objects or the illegal gain, and may also impose a fine not more than 10% the construction cost.

According to the Construction Law of the PRC (中華人民共和國建築法) (the “Construction Law”) which was promulgated and amended by the SCNPC on 22 April 2011, before the start of construction projects, construction units shall apply to the competent construction administrative departments for construction licenses. Construction enterprises, which act in violation of above mentioned stipulations of the Construction Law to start construction operation without construction permit or at the time when the application for construction operation has not yet been approved, shall be ordered to correct themselves. Construction enterprises of which construction projects cannot meet the requirement for starting operation shall be ordered to stop construction operation and may be imposed fine penalties.

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Although our PRC subsidiary, Zhangping Kimura, did not obtain the “Construction Land Use Planning Permit”, the “Planning Permit for Construction Works” and/or the “Construction Works Commencement Permit” for part of its plants, as (i) Zhangping Kimura has obtained the confirmation letters from the Land and Resources Bureau of Zhangping (the “Land Bureau of Zhangping”) and the Town Planning and Construction Bureau of Zhangping respectively for the non-compliance of construction issue which confirmed that the Land Bureau of Zhangping and the Town Planning and Construction Bureau of Zhangping will not (1) impose any administrative punishment (including but not limited to fine) on Zhangping Kimura; (2) withdraw the lands without compensation; (3) require Zhangping Kimura to supplement the previous construction certificates and (ii) Merry Garden Wooden Structure and Merry Garden (Shanghai) did not have any construction projects, our PRC Legal Adviser confirmed that save for the disclosure in “Legal Proceedings and Compliance” of “Business” section, our Group has complied with all the requirements of the aforesaid PRC laws and regulations.

Law on Protection of the Rights and Interests of Consumers

The products in the PRC shall be subject to the Product Quality Law of the PRC (中華人民共和國產品質量法) (the “Product Quality Law”), the PRC Law on Protection of the Rights and Interests of Consumers (中華人民共和國消費者權益保護法) and other relevant laws and regulations.

According to the Product Quality Law, which was promulgated by the SCNPC on 22 February 1993 and amended on 8 July 2000, except for unpacked food or other products which are difficult to pack due to their peculiarities, all products or packages of products shall be labeled with authentic marks which satisfy the following requirements: (i) including a certificate of quality inspection; (ii) including the Chinese name of the product and the Chinese name and address of the manufacturer; (iii) if specification, grades or names and contents of the major ingredients are required to be specified according to the characteristics of the products and the requirements for use, they shall be specified clearly in Chinese; if it is required to be known by consumers in advance, it shall be marked on the outer package of the product, or be provided to consumers in advance; (iv) where there is a time limit for use of product, the date of production or the period for safe use or the date of losing effect shall be marked clearly at a conspicuous position of the product; and (v) if improper use of the product would cause damages to such product or imperil the safety of person or property, warning marks or warning indications shall be shown in Chinese.

Manufacturers shall be responsible to compensate the damages of the person or property caused by the defect of products. Sellers shall be responsible for compensation if the damages of the property or person are caused by defects resulting from the fault of sellers. Defects mentioned above refer to the unreasonable dangers exist in the products that threaten the safety of person or property, or the products that fall short of the national standards or industrial standards for the protection on body health and safety of person (if any). Industrial products which may be hazardous to the health of human body and the safety of person and property shall conform to the national or industrial standards for ensuring the health of human body and the safety of person and property. Where an enterprise produces or sells products that do not conform to the national or industrial standards for ensuring physical health and safety of human body and property, it shall be ordered to stop production and sale; the products illegally produced and sold shall be confiscated; a fine less than three times the value of the products illegally produced or sold (including the products have and have not been sold out) shall be imposed upon the producer or seller; the illegal proceeds (if any) shall be confiscated; and the business license shall be revoked if the circumstance is serious. If the case is severe enough to constitute a crime, criminal responsibility shall be prosecuted.

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According to the Product Quality Law, our Company shall be responsible for the quality of its products (including without limitation timber villas) as the manufacturer and the products shall conform to the relevant national standards or industry standards. The current national mandatory standards applicable to the timber villas manufactured by our Company include but not limit to the GB18584-2001 Limits of the Harmful Substances in the Indoor Decorating and Refurbishing Materials (《室內裝飾裝修材料木家具中有害物質限量》) (“GB18584-2001 Standard”) and the Wood Based Furniture, the GB50005-2003 Standards for the Design of Timber Structures 《木結構設計規範》 (“GB50005-2003 Standard”) and the GB50206-2002 Standards for the Quality Acceptance of Timber Structures Construction 《木結構工程施工質量驗收規範》 (“GB50206-2002 Standard”).

The GB18584-2001 Standard is the national mandatory standard for current furniture industries. This standard provides the limit of harmful substances in wood-made furniture for indoor use, the test method and test principles. The limits for the harmful substances in wood-made furniture focus on two aspects: one is the release of formaldehyde from sheet material and adhesive; and the other is the content of soluble heavy metal (i.e. lead, chromium, cadmium and mercury) in the enamel coating of furniture. Such standard provides that the release of formaldehyde from the wood based furniture shall be $\leq 1.5\text{mg/L}$, and the content of heavy metal in enamel coating shall be: soluble lead $\leq 90\text{mg/kg}$, soluble cadmium $\leq 75\text{ mg/kg}$, soluble chromium $\leq 60\text{ mg/kg}$, and soluble mercury $\leq 60\text{ mg/kg}$. The GB50005-2003 Standard is the national mandatory standards apply to the design of the load-bearing timber structures in the construction projects. These standards provide that load-bearing timber shall be used in the building structure under the condition of normal temperature and humidity level, and timber structures which have not been processed with fireproof treatment shall not be used in buildings that may catch fire easily; timber structures which have not been processed with the moisture proof and anticorrosive treatment shall not be used in places which are damp and lacks of proper ventilation. The GB50206-2002 Standard is the national mandatory standards apply to the quality acceptance of timber structures construction. Our Company shall assume the relevant liabilities for the safety problems (e.g. collapse of the villa that caused injuries/death and damages) caused by the defects of the timber villas produced or sold by our Company.

The PRC Law on Protection of the Rights and Interests of Consumers (中華人民共和國消費者權益保護法) was promulgated by the SCNPC on 31 October 1993 and became effective since 1 January 1994. According to the PRC Law on Protection of the Rights and Interests of Consumers, a business operator who provides commodities or services shall, in any of the following circumstances, bear civil liability in accordance with the Product Quality Law and other relevant laws and regulations unless otherwise provided by this law: (i) where a defect exists in a commodity; (ii) where a commodity does not possess functions it is supposed to possess, and the same has not been declared when the commodity is sold; (iii) where the commodity standards indicated on a commodity or on the package of such commodity are not met; (iv) where the quality condition indicated by way of commodity description or physical sample, etc. is not met; (v) where commodities pronounced obsolete by formal State decrees are produced or have expired or deteriorated commodities are sold; (vi) where a sold commodity is not adequate in quantity; (vii) where the service items and charges are in violation of an agreement; (viii) where demands by a consumer for repair, redoing, replacement, return, making up the quantity of a commodity, refund of a commodity purchase price or service fee or claims for compensation have been delayed deliberately or rejected without reason; or (ix) in other circumstances where the rights and interests of consumers, as provided by laws and regulations, are harmed.

According to the Tort Law of the PRC (中華人民共和國侵權責任法) (the “Tort Law”) which was promulgated by the SCNPC on 26 December 2009 and became effective since 1 July 2010,

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manufacturers shall be responsible to compensate the damages of the person or property caused by the defect of products. Sellers shall be responsible for compensation if the damages of the property or person are caused by defects resulting from the fault of sellers. If the seller is unable to name the producer or supplier of the defective product, the seller shall bear tort liability. The injured person may demand indemnification from the producer of the product or from the seller of the product. If the defect in the product was caused by the producer, the seller shall have the right, after paying indemnification, to recover the same from the producer. If the defect in the product is caused by the fault of the seller, the producer shall have the right, after paying indemnification, to recover the same from the seller. Further, as advised by our PRC Legal Adviser, product liability insurance is not compulsory under the PRC law. Therefore, our Group has not maintained any insurance to cover the product liability risk in the PRC or its exporting markets.

We confirmed that the products produced by our Group have strictly complied with the national and industrial standards for ensuring the health of human body and safety of person and property. As at the Latest Practicable Date, our Group had never been subject to any liabilities claimed by others for product quality.

Intellectual Property

The products in the PRC shall be subject to intellectual property laws, which mainly include the Copyright Law of the PRC (中華人民共和國著作權法), the Patent Law of the PRC (中華人民共和國專利法) (the “Patent Law”) and the Trademark Law of the PRC (中華人民共和國商標法) (the “Trademark Law”).

According to the Trademark Law, which was promulgated by the SCNPC on 23 August 1982 and amended on 27 October 2001, the following acts shall be regarded as an infringement upon the right to exclusive use of a registered trademark: (i) using a trademark which is identical or similar to the registered trademark on the same kind of commodities or similar commodities without a license from the registrant of that trademark; (ii) selling commodities that infringe the right to exclusive use of a registered trademark; (iii) forging, manufacturing without authorisation the marks of a registered trademark of others, or selling commodities with forged trademarks or manufactured with registered trademarks without authorisation; (iv) changing a registered trademark and putting the commodities with the changed trademark into the market without the consent of the registrant of that trademark; and (v) causing other damages to the right to exclusive use of a registered trademark of another person.

According to the Patent Law promulgated by the SCNPC on 12 March 1984 and become effective on 1 April 1985 and was afterwards amended on 4 September 1992, 25 August 2000 and 17 December 2008 respectively, any exploitation of the patent without the authorisation from the patentee shall constitute an infringing act.

According to the PRC Anti-unfair Competition Laws, where an enterprise uses other’s enterprise name without authorisation and misleads the public to believe the products belong to such other party, such act constitutes a breach of the PRC Anti-unfair Competition Laws and the enterprise shall be subject to the civil liabilities stipulated under the PRC Anti-unfair Competition Laws (such as to cease infringement and compensate the damages) and the penalties imposed by the government where appropriate. According to the “Interpretation of the Supreme People’s Court on Application of Law in the Civil Case of Unfair Competition” (最高人民法院關於審理不正當競爭民事案件應用法律若干問題的解釋), “enterprise name” shall include an enterprise name registered in the PRC, an enterprise

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name of a foreign company used in the PRC for commercial purpose, and a trade name (as part of the enterprise name) with certain market reputation and well known by the general public; and “use of enterprise name” shall include the circumstance where the enterprise name is used on advertisement, exhibition or other commercial activities.

Our PRC subsidiary, Zhangping Kimura, has registered nine trademarks, one invention patent and forty-two utility model patents, and filed twenty-nine patent applications for utility model, one patent application for design and six patent applications for invention in the PRC. In addition, Zhangping Kimura has been granted of exclusive license for seven patents by entering into patent license contracts with the respective patentor. As advised by our PRC Legal Adviser, Zhangping Kimura as owner of the trademarks and patents has the right to exclusively use the registered trademarks and patents according to the PRC laws and regulations; Zhangping Kimura also has the right to exercise the exclusive license for the patents according to the patent license contracts. Should any third party without our Group’s authorisation use our trademarks or operate business which is same or similar to the products and services under our Group’s registered trademarks and thus cause the customers to misunderstand that such products or services belongs to our Group, or any third party without our Group’s authorisation exercise our patents, such third party shall bear civil liability, stop using the trademarks and patents and compensate to our Group if any damage is caused.

Laws and regulations relating to the business

Cultivation, planting, logging and utilising of forest and woods, and operation and management of forests, trees and woodlands in the PRC shall be subject to the Forest Laws of The People’s Republic of China (中華人民共和國森林法) (the “Forest Law”) and the Regulations for the Implementation of Forest Laws of the PRC (中華人民共和國森林法實施條例) (the “Regulations for the Implementation of Forest Law”). The Forest Law was promulgated by the SCNPC on 20 September 1984, came into effect on 1 January 1985 and amended on 29 April 1998. The Regulations for the Implementation of Forest Laws was promulgated by the State Council and came into effect on 29 January 2000. According to the Regulations for the Implementation of Forest Laws, the timber operation (including processing) in forest zone shall be subject to the approval by the competent forestry authority of the people’s governments at or above county level. For unapproved timber operation (including processing) in forest zone, the competent forestry authority of people’s government at county or above level shall confiscate the unlawful lumbers and illegal gains, and impose a fine of not more than 200% of the illegal gains. Timber purchase units or individuals shall not purchase timber without Timber Harvest Licence or other certificates to prove its lawful origin.

According to the Forest Law, the Timber Transportation Licence issued by the competent forestry authorities shall be presented when transporting timber out of forest districts, except for the timber unitarily allocated and transferred by the State.

As Zhangping Kimura has already obtained the “Permit for Timber Operation (Processing) of Fujian province” from Zhangping Forestry Bureau, and the aforesaid PRC laws and regulations are not applicable to Merry Garden Wooden Structure and Merry Garden (Shanghai), our PRC Legal Adviser confirmed that our Group has complied with all the requirements of the aforesaid PRC laws and regulations.

The Measures for Land Reserve Administration

According to the Measures for Land Reserve Administration which was promulgated by the Ministry of Land and Resources of the PRC (中華人民共和國國土資源部), Ministry of Finance and

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the People's Bank of China (中國人民銀行) and came into effect on 19 November 2007, reserved land will be brought into the local land offering plan of municipality or county after completing its preparatory development and consolidation, and the land offering shall be organised by the municipal or county Government.

PRC Regulations Relating to Circular No.75

On 21 October 2005, SAFE promulgated the Circular No. 75. According to the Circular No.75, if a domestic resident wants to use an overseas special purpose vehicle (i.e. the overseas enterprise directly established or indirectly controlled by the domestic resident for the purpose of overseas stock financing for the assets or interests held by him in the domestic enterprise) to conduct return investment in the PRC, i.e. direct investment in the PRC, the domestic resident shall submit the prescriptive documents to the local branch of SAFE to apply for going through the procedures for foreign exchange registration of overseas investments.

As the shareholders of our Group who are domestic residents completed the aforesaid procedures for foreign exchange registration on 10 January 2012, our PRC Legal Adviser confirmed that our Group has complied with all the requirements under the aforesaid PRC laws and regulations.

M&A Rules

On 8 August 2006, Ministry of Commerce, China Securities Regulatory Commission (中國證券監督管理委員會) (“CSRC”), SAFE and three other PRC authorities promulgated Rules on the Mergers and Acquisitions of Domestic Enterprise by Foreign Investors (關於外國投資者並購境內企業的規定) (the “M&A Rules”), which came into effect on 8 September 2006 and revised on 22 June 2009. According to the M&A Rules, a special purpose vehicle (the “SPV”) shall mean an offshore company directly or indirectly controlled by a domestic company or individuals for the purpose of listing overseas the equity interests of a domestic company actually owned by such company or individuals, and the overseas listing of a SPV shall be subject to approval from CSRC (the “CSRC Approval”).

As (i) Zhangping Kimura has been a foreign investment enterprise since its establishment, (ii) Merry Garden Wooden Structure and Merry Garden (Shanghai) are enterprises established by Zhangping Kimura, both of which are not the domestic enterprises defined in the M&A Rules, our PRC Legal Adviser confirmed that the application for overseas listing of our Group and the reorganisation prior to the listing are not subject to the M&A Rules and thus is not required to procure approval from CSRC.

Overseas Regulations

During the Track Record Period, we did not deliver our products directly to overseas retail consumers but instead delivered our products to our overseas customers primarily on free-on-board terms (at PRC ports) in accordance with our overseas customers' specifications. It is our overseas customers who were responsible for the registered customs entries of our products to those overseas countries and they were responsible for ensuring that the products would meet the relevant overseas laws and regulations (including import duties, product safety restricted and chemical contents restricted chemical contents and anti-dumping regulations, etc.). Details of our product examination arrangements with respect to our products are disclosed in the paragraph headed “Quality Control” in the section headed “Business” in this prospectus. Accordingly, our Directors believe that our Group

REGULATIONS

is not exposed to material liabilities as a result of any such regulation assuming the products we deliver meet our customers' specifications. In addition, during the Track Record Period, we conducted the operations of our business in the PRC and are not aware of any regulations that are directly applicable to our business in countries outside the PRC.

However, overseas sales of our products by our customers expose us to possible sales interruptions or cancellations and increased costs in the event of adverse actions by U.S., the European Union (the "EU") or other foreign government agencies with respect to continued trade or the enactment of legislation that restricts trade. For the financial years 2009, 2010 and 2011, shipments of our products to the United States, accounted for approximately 62%, 33% and 27%, respectively, of our revenue and Europe accounted for approximately 9%, 6% and 13%, respectively, of our revenues. The United States currently provides the PRC with normal trade relation status, allowing the PRC to receive the same tariff treatment that the United States extends to most of its trading partners. Notwithstanding this current policy, the U.S. government could seek to revoke the PRC's normal trade relation status or condition its renewal on factors such as the PRC's human rights record. The administration of existing U.S. trade law could also create adverse consequences for sales by us to our customers. In particular, there are certain provisions under U.S. law that permit the U.S. government to retaliate against certain unfair foreign trading practices. The trade relations between the United States and the PRC have been contentious in the recent past, and we cannot predict whether this tension will interfere with our ability of our customers to import our products into the United States in the future. Such action could further increase the costs of imported timber products generally, or limit our ability to sell timber products to our customers as a result of restrictions on the import of our products by our customers. In addition, if manufacturers or governmental authorities in the United States or the EU were to believe that our products or the products of our competitors were being "dumped" onto the U.S. market at prices lower than the prices of which comparable goods are sold in the domestic market of the exporter, they could request the imposition of anti-dumping duties on our products. During the Track Record Period and up to the Latest Practicable Date, the US government had initiated various anti-dumping investigations and imposed anti-dumping duties against some kinds of the timber-made products originated from the PRC such as specified kinds of timber floors. Besides, the U.S. Congress has approved a bill on anti-dumping duties against timber-made bedroom furniture in February 2012. Nonetheless, so far as our Directors are aware, our products were not the subject of any anti-dumping investigation or anti-dumping duties nor had we exported any timber-made bedroom furniture to the U.S. market or produced any timber floors which are subject to anti-dumping duty during the Track Record Period.

However, there is no assurance that our products would not be subject to the anti-dumping investigations or duties in the future.

We are also unable to predict whether other customs duties, quotas or other restrictions in the United States, EU or any other jurisdictions in which our products are sold by our customers will be imposed in the future upon the importation of our products to such regions, as a result of any of the matters discussed above, or because of similar U.S. or foreign government actions. Any such actions could also result in increases in the prices of imported timber products generally, or limitations on our ability to timber products to customers who sell our products in such countries or regions.

COMPANY HISTORY AND REORGANISATION

OVERVIEW

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 17 October 2011 in anticipation of the Global Offering. We are a wooden leisure products enterprise and have launched a series of products which includes leisure household products and timber villas, sheds and their related parts and structures. For details of our corporate structure, please refer to the paragraph headed “Our Corporate Structure” in this section.

OUR BUSINESS DEVELOPMENT

Our Group can trace its roots back to 1995 when Zhangping Kimura, our principal PRC operating subsidiary, was established in the PRC. The following is a summary of our Group’s key business development milestones:

- | | | |
|----------------|---|--|
| December 1995 | : | Zhangping City Textile Equipment Factory (漳平市紡織器材廠) and Isawa Limited (井澤株式會社) established Zhangping Kimura and commenced timber business operations in Fujian Province |
| December 2007 | : | Our ACQ-D Wood Preservative was awarded the Fujian Excellent New Products Third Prize (ACQ-D木材防腐劑為福建省優秀新產品三等獎) by People’s Government of Fujian Province |
| September 2008 | : | (1) Our “Merry Garden 美丽家园” brand was awarded Fujian Top Brand product by the Administration for Industry and Commerce of Fujian (2) We were awarded the 2008-2009 Provincial Agricultural Industrialisation Key Leading Enterprise (2008-2009年度農業產業化省級重點龍頭企業) by the Agricultural Industrialisation Leading Group of Fujian Province |
| November 2009 | : | We were awarded the Golden Prize for Agricultural Brand Enterprise of Fujian Province (福建省品牌農業企業金獎) by the People’s Government of Fujian Province |
| June 2010 | : | We established Merry Garden Wooden Structure |
| August 2010 | : | We established King Wood |
| October 2010 | : | Zhangping Kimura was accredited as a High and New Technology Enterprise (高新技術企業) by the Fujian Provincial Department of Science and Technology, the Fujian Provincial Department of Finance, the Fujian Provincial National Tax Administration, the Fujian Provincial Local Tax Administration |
| November 2010 | : | Our “Merry Garden 美丽家园” brand’s anti-corrosive wood was accredited as a Fujian top brand |

COMPANY HISTORY AND REORGANISATION

- December 2010 : We were awarded The First Batch Pilot Enterprises Successfully Applied Technology Standardisation Strategies of Fujian Province (福建省第一批實施技術標準戰略試點合格企業) by the Fujian Provincial Bureau of Quality and Technical Supervision, Economic and Trade Committee of Fujian Province
- October 2011 : (1) We were awarded the top 10 wood preservation enterprises of China wood preservation industry in 2011 (2011年中國木材保護工業木材防腐10強企業) by the China Wood Preservation Industry Association, China Timber and Wood Products Distribution Association Wood Preservation Committee
- (2) We were awarded the Innovative enterprise of China wood preservation industry in 2011 (2011年中國木材保護工業創新型企業) by the China Wood Preservation Industry Association
- (3) We were awarded the Thermo-modified wood brand enterprise of China wood preservation industry in 2011 (2011年中國木材保護工業炭化木品牌企業) by the China Wood Preservation Industry Association, China Timber and Wood Products Distribution Association Wood Preservation Committee
- (4) We were awarded the Anti-corrosion wood structure application model enterprise of China wood preservation industry in 2011 (2011年中國木材保護工業防腐木材工程應用示範企業) by the China Wood Preservation Industry Association, China Timber and Wood Products Distribution Association Wood Preservation Committee
- (5) We were awarded the Wood preservatives brand enterprise of China wood preservation industry in 2011 (2011年中國木材保護工業木材防腐劑品牌企業) by the China Wood Preservation Industry Association, China Timber and Wood Products Distribution Association Wood Preservation Committee
- December 2011 : We opened our first self-operated store in Zhangping city, Fujian Province, the PRC
- February 2012 : We established Merry Garden (Shanghai)

COMPANY HISTORY AND REORGANISATION

PRE-IPO INVESTMENTS

During 2010 and 2011, Mr. Wu, Mr. QS Wu, Ms. Yan, Ms. Xie (the “Transferors”), Zhangping Kimura and a number of investors entered into cooperation agreements (as supplemented by supplemental agreements thereto by the Transferors, Zhangping Kimura, our Company, Green Oceans, Green Seas and King Wood with each of the investors) respectively pursuant to which the Transferors agreed to transfer certain percentage of Shares to the said investors. The key terms and particulars of the cooperation agreements are set out below:

| Date of agreement | Transferee | Aggregate amount of investments made | Date of full settlement of the aggregate amount of investments | Number and percentage of Shares transferred (prior to the completion of the Capitalisation Issue and Global Offering) |
|-----------------------------------|-----------------------|--------------------------------------|--|---|
| 28 April 2010 and 8 November 2011 | Hong Kong Investments | RMB40,800,000 | 28 November 2011 | 160,000 Shares (16%) |
| 28 April 2010 | Mr. Ke Mingcai | RMB24,000,000 | 27 May 2010 | 120,000 Shares (12%) |
| 28 April 2010 | Fu Tak Investments | RMB12,000,000 | 28 May 2010 | 60,000 Shares (6%) |
| 28 April 2010 | Mr. Cai Shaowei | RMB10,000,000 | 27 May 2010 | 50,000 Shares (5%) |
| 28 May 2010 | Oceanid Investment | RMB2,000,000 | 10 June 2010 | 10,000 Shares (1%) |

Mr. Ke Mingcai and Mr. Cai Shaowei transferred their respective Shares to Haili International and Great Success following their incorporation on 18 August 2011 and 14 September 2011, respectively.

The Pre-IPO Investments were made and settled by transfer of certain percentage of Shares to the Pre-IPO Investors (except Hong Kong Investments) by Mr. Wu, Mr. QS Wu, Ms. Yan and Ms. Xie and such percentage of Shares transferred was determined between the parties on an arms-length basis having made reference to the financial results of our Company for the year ended 31 December 2010. Based on the above, the investment cost associated with the Shares transferred to the Pre-IPO Investors was approximately HK\$0.30 per Share, representing a discount of approximately 72% to the mid-point of the indicative Offer Price range.

In respect of Hong Kong Investments, the percentage of Shares transferred was determined between the parties on an arms-length basis having made reference to the financial results of our Company for the years ended 31 December 2010 and 31 December 2011 respectively. Based on the above, the average investment cost associated with the Shares transferred to Hong Kong Investments was approximately HK\$0.38 respectively, representing a discount of approximately 65% respectively to the mid-point of the indicative Offer Price range.

COMPANY HISTORY AND REORGANISATION

None of the Pre-IPO Investors would receive guaranteed discount to the Offer Price.

The Shares held by the Pre-IPO Investors shall be subject to a lock-up period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date. In addition, all Shares held by the Pre-IPO Investors will be counted towards the public float after the Listing save for Hong Kong Investments, which will be deemed as a connected person by virtue of holding 13.12% of our Shares after completion of the Global Offering. No special rights have been granted to any of the Pre-IPO Investors.

Hong Kong Investments is a company incorporated in the BVI and the entire issued share capital of which is held by Mr. Cheung Chi Mang. Hong Kong Investments and its beneficial owner are Independent Third Parties.

Fu Tak Investments is a company incorporated in the BVI and the entire issued share capital of which is held by Ms. Huang Binbin. Fu Tak Investments and its beneficial owner are Independent Third Parties.

Oceanid Investment is a company incorporated in the BVI and the entire issued share capital of which is held by Mr. Ho Ka Chung Kevin. Oceanid Investment and its beneficial owner are Independent Third Parties.

Haili International is a company incorporated in the BVI and the entire issued share capital of which is held by Mr. Ke Mingcai. Haili International and its beneficial owner are Independent Third Parties.

Great Success is a company incorporated in the BVI and the entire issued share capital of which is held by Mr. Cai Shaowei. Great Success and its beneficial owner are Independent Third Parties.

To the best of our knowledge, information and belief, the Pre-IPO Investors are principally engaged in investment business and their respective ultimate beneficial shareholders are individual investors. Each of the Pre-IPO Investors (other than their respective pre-IPO investments) are independent from each other and from our Company and its connected persons.

OUR CORPORATE HISTORY

Zhangping Kimura

Mr. Wu Dongping saw the growing demand for leisure products. As a result, he decided to enter the industry and set up our Group in Zhangping City of Fujian Province, the PRC because of its rich forestry resources.

On 1 December 1995, Mr. Wu Dongping, in his capacity as the legal representative of JJMC (which was known as Zhangping City Textile Equipment Factory (漳平市紡織器材廠) prior to 13 January 2004 and Zhangping City Jiajia Anti-Corrosion Wooden Goods Factory (漳平市佳家防腐木材製品廠) during 14 January 2004 to 17 August 2010), entered into the Zhangping Kimura Sino-Foreign Cooperative Joint Venture Agreement and established Zhangping Kimura with Isawa Limited (井澤株式會社).

COMPANY HISTORY AND REORGANISATION

JJMC was established in the PRC on February 1993 by the Science-Technology Development Centre of Zhangping City (漳平市科技開發中心) with a registered capital of RMB200,000. It was managed by Mr. Wu Dongping since its establishment. In August 1997, Science-Technology Development Centre of Zhangping City (漳平市科技開發中心) transferred its ownership of JJMC to Mr. Wu Dongping; and thereafter JJMC was 100% owned by Mr. Wu Dongping until he sold all his equity interests therein to two Independent Third Parties on 10 November 2011. As at the date of the establishment of Zhangping Kimura, the principal business of JJMC covered textile equipments, accessories, semi-finished products, timber products and metal products.

Isawa Limited was incorporated in Japan as a limited company on 13 December 1980. As at the date of establishment of Zhangping Kimura, its principal business covered (i) manufacturing and sale of various tools; (ii) manufacturing and sale of gardening tools, working tools and household hardware; (iii) sale of antique; and (iv) any other business related to (i) to (iii) above. Our Directors, senior management and their associates do not have any relationship with Isawa Limited.

At the time of its establishment, Zhangping Kimura had an authorised registered capital of RMB2.5 million and JJMC and Isawa Limited held 60% and 40% equity interests, respectively, in Zhangping Kimura.

JJMC's source of funding for establishing Zhangping Kimura came from the income/profit of Mr. Wu Dongping's business before establishment of Zhangping Kimura.

On 15 May 2000, the board of directors of Zhangping Kimura resolved to increase our company's registered capital to RMB10 million, according to which JJMC and Isawa Limited respectively contributed an aggregate capital of RMB7.5 million and RMB2.5 million to Zhangping Kimura and was entitled to 75% and 25% of the equity interests therein afterwards.

On 13 January 2004, JJMC changed its name from Zhangping City Textile Equipment Factory (漳平市紡織器材廠) to Zhangping City Jiajia Anti-Corrosion Wooden Goods Factory (漳平市佳家防腐木材製品廠).

On 16 January 2006, the board of directors of Zhangping Kimura resolved to further increase its registered capital to RMB21 million and introduce new investors namely Mr. Wu, Mr. QS Wu, Mr. Li Xueyan (李雪岩), Ms. Yan and Ms. Xie with their respective capital contributions of RMB4.055 million, RMB1.1 million, RMB329,000, RMB220,500 and RMB220,500. JJMC and Isawa Limited also contributed additional capital of RMB2.325 million and RMB2.75 million respectively. Upon completion of the said capital increase, JJMC, Isawa Limited, Mr. Wu, Mr. QS Wu, Mr. Li Xueyan, Ms. Yan and Ms. Xie held 46.78%, 25%, 19.31%, 5.24%, 1.57%, 1.05% and 1.05% equity interests, respectively, in Zhangping Kimura.

On 16 October 2008, Mr. Li Xueyan and Mr. Wu entered into an equity interest transfer agreement pursuant to which Mr. Li Xueyan agreed to transfer his 1.567% equity interest in Zhangping Kimura to Mr. Wu at the consideration of RMB329,000 which was the original capital contribution of Mr. Li Xueyan. Upon completion of the said equity transfer, JJMC, Isawa Limited, Mr. Wu, Mr. QS Wu, Ms. Yan and Ms. Xie held 46.786%, 25%, 20.876%, 5.238%, 1.05% and 1.05% equity interests, respectively, in Zhangping Kimura.

COMPANY HISTORY AND REORGANISATION

On 28 April 2010, each of JJMC and Mr. QS Wu entered into an equity interest transfer agreement with Mr. Wu pursuant to which each of JJMC and Mr. QS Wu agreed to transfer its/his 46.786% and 1.048% equity interests in Zhangping Kimura to Mr. Wu at the considerations of RMB9.825 million and RMB220,100, respectively. The said considerations were based on the respective original capital contributions of JJMC and Mr. QS Wu. Upon completion of the said equity interest transfers, Isawa Limited (井澤株式會社), Mr. Wu, Mr. QS Wu, Ms. Yan and Ms. Xie held 25%, 68.71%, 4.19%, 1.05% and 1.05%, respectively, in Zhangping Kimura.

On 17 August 2010, Mr. Wu Dongping, Mr. QS Wu and Mr. Wu were appointed as JJMC's supervisor, general manager, and executive director and legal representative, respectively.

On 18 August 2010, JJMC changed its name from Zhangping City Jiajia Anti-Corrosion Wooden Goods Factory (漳平市佳家防腐木材製品廠) to Zhangping City Jiajia Anti-Corrosion Wooden Goods Company Limited (漳平市佳家防腐木材製品有限公司).

On 18 August 2010, each of Isawa Limited, Mr. Wu, Mr. QS Wu, Ms. Yan and Ms. Xie entered into an equity interest transfer agreement with King Wood pursuant to which each of Isawa Limited, Mr. Wu, Mr. QS Wu, Ms. Yan and Ms. Xie agreed to transfer its/his/her entire equity interests in Zhangping Kimura to King Wood at the respective considerations of RMB5.25 million, RMB14.4291 million, RMB879,900, RMB220,500 and RMB220,500. The said considerations were based on their respective original capital contributions of Zhangping Kimura. On 17 September 2010, Zhangping Kimura was converted into a wholly foreign-owned enterprise.

On 18 October 2010, the board of directors of Zhangping Kimura resolved to increase the registered capital of Zhangping Kimura from RMB21 million to RMB50 million.

On 10 November 2011, Mr. Wu Dongping sold all his interests in JJMC to two Independent Third Parties, namely Huang Zijing (黃子敬) and Cai Jinrong (蔡進榮), as to 60% and 40% respectively. On 14 November 2011, Mr. Wu Dongping, Mr. Wu and Mr. QS Wu also ceased to be the management of JJMC.

Merry Garden Wooden Structure

On 12 June 2010, Merry Garden Wooden Structure was established in the PRC with limited liability as a wholly-owned subsidiary of Zhangping Kimura. As at the Latest Practicable Date, Merry Garden Wooden Structure had an approved business scope of "research and development, design and installation of timber villas, garden landscape and courtyard designs and other wooden structures".

King Wood

King Wood was incorporated in Hong Kong on 5 August 2010. At the time of its incorporation, Mr. Wu, Mr. QS Wu, Ms. Yan and Ms. Xie held 91.61%, 5.59%, 1.4% and 1.4% of the issued share capital of King Wood respectively.

On 3 January 2012, Mr. Wu, Mr. QS Wu, Ms. Yan, Ms. Xie, Green Oceans and our Company entered into a share transfer agreement pursuant to which Mr. Wu, Mr. QS Wu, Ms. Yan and Ms. Xie transferred all their equity interests in King Wood to Green Oceans in consideration of Green Oceans' allotment and issue of 9 shares to our Company.

COMPANY HISTORY AND REORGANISATION

Merry Garden (Shanghai)

On 24 February 2012, Merry Garden (Shanghai) was established in the PRC with limited liability as a wholly-owned subsidiary of Zhangping Kimura. As at the Latest Practicable Date, Merry Garden (Shanghai) had an approved scope of “sales of household goods, furniture, timber and wooden products, metal products, plastic products and landscape arts and crafts”. As at the Latest Practicable Date, Merry Garden (Shanghai) had not commenced operation.

OUR REORGANISATION

The companies comprising our Group underwent a reorganisation to rationalise our corporate structure in preparation for the Listing, and as a result, our Company became the holding company of our Group. The Reorganisation involved the following steps:

- (a) On 17 October 2011, our Company was incorporated in the Cayman Islands with an authorised share capital of HK\$390,000 divided into 390,000 Shares of HK\$1.00 each. At the time of its incorporation, the total number of issued shares of our Company was 10,000 Shares, of which 9,161, 559, 140, 140 Shares were held by Mr. Wu, Mr. QS Wu, Ms. Yan and Ms. Xie respectively, representing 91.61%, 5.59%, 1.4% and 1.4% of the then issued share capital of our Company respectively.
- (b) On 7 November 2011, Green Oceans was incorporated in BVI with limited liability. On the same date, our Company subscribed for 1 share in Green Oceans at par value. Upon completion of the said share subscription, Green Oceans became a wholly-owned subsidiary of our Company.
- (c) On 24 November 2011, Mr. Wu, Mr. QS Wu, Ms. Yan and Ms. Xie submitted the prescribed relevant documents for registration under Circular No.75. Their respective registrations were completed on 10 January 2012.
- (d) On 3 January 2012, our Company, Green Oceans, Mr. Wu, Mr. QS Wu, Ms. Yan and Ms. Xie entered into a share transfer agreement pursuant to which Mr. Wu, Mr. QS Wu, Ms. Yan and Ms. Xie agreed to transfer all their equity interests in King Wood to Green Oceans in consideration of Green Oceans' allotment and issue of 9 fully paid shares to our Company.
- (e) On 5 January 2012, Green Seas was incorporated in BVI with limited liability with Mr. Wu being its sole shareholder.
- (f) On 28 April 2010, Mr. Wu, Mr. QS Wu, Ms. Xie, Ms. Yan (collectively referred to as the “Vendors”), Zhangping Kimura and Hong Kong Investments entered into a cooperation agreement whereby the Vendors agreed to transfer an aggregate of 12% equity interest of the entity embracing Zhangping Kimura after the Reorganisation to Hong Kong Investments or any nominee appointed by it at the consideration of RMB24 million. On 1 March 2012, the Vendors, Zhangping Kimura, our Company, Green Oceans, Green Seas, King Wood and Hong Kong Investments entered into a supplemental cooperation agreement, pursuant to which Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan transferred their respective 10.9932%, 0.6708%, 0.168% and 0.168% shareholdings in our Company to Hong Kong Investments at the consideration of RMB21,986,400, RMB1,341,600, RMB336,000 and RMB336,000, respectively.

COMPANY HISTORY AND REORGANISATION

- (g) On 28 April 2010, the Vendors, Zhangping Kimura and Fu Tak Investments entered into a cooperation agreement whereby the Vendors agreed to transfer an aggregate of 6% equity interest of the entity embracing Zhangping Kimura after the Reorganisation to Fu Tak Investments or any nominee appointed by it at the consideration of RMB12 million. On 1 March 2012, the Vendors, Zhangping Kimura, our Company, Green Oceans, Green Seas, King Wood and Fu Tak Investments entered into a supplemental cooperation agreement, pursuant to which Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan transferred their respective 5.4966%, 0.3354%, 0.084% and 0.084% shareholdings in our Company to Fu Tak Investments at the consideration of RMB10,993,200, RMB670,800, RMB168,000 and RMB168,000, respectively.
- (h) On 28 April 2010, the Vendors, Zhangping Kimura and Mr. Ke Mingcai entered into a cooperation agreement whereby the Vendors agreed to transfer an aggregate of 12% equity interest of the entity embracing Zhangping Kimura after the Reorganisation to Mr. Ke Mingcai or any nominee appointed by him at the consideration of RMB24 million. On 1 March 2012, the Vendors, Zhangping Kimura, our Company, Green Oceans, Green Seas, King Wood, Mr. Ke Mingcai and his nominee, Haili International, entered into a supplemental cooperation agreement, pursuant to which Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan transferred their respective 10.9932%, 0.6708%, 0.168% and 0.168% shareholdings in our Company to Haili International at the consideration of RMB21,986,400, RMB1,341,600, RMB336,000 and RMB336,000, respectively.
- (i) On 28 April 2010, the Vendors, Zhangping Kimura and Mr. Cai Shaowei entered into a cooperation agreement whereby the Vendors agreed to transfer an aggregate of 5% equity interest of the entity embracing Zhangping Kimura after the Reorganisation to Mr. Cai Shaowei or any nominee appointed by him at the consideration of RMB10 million. On 1 March 2012, the Vendors, Zhangping Kimura, our Company, Green Oceans, Green Seas, King Wood, Mr. Cai Shaowei and his nominee, Great Success, entered into a supplemental cooperation agreement, pursuant to which Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan transferred their respective 4.5805%, 0.2795%, 0.07% and 0.07% shareholdings in our Company to Great Success at the consideration of RMB9,161,000, RMB559,000, RMB140,000 and RMB140,000, respectively.
- (j) On 28 May 2010, the Vendors, Zhangping Kimura and Oceanid Investment entered into a cooperation agreement whereby the Vendors agreed to transfer an aggregate of 1% equity interest of the entity embracing Zhangping Kimura after the Reorganisation to Oceanid Investment or any nominee appointed by it at the consideration of RMB2 million. On 1 March 2012, the Vendors, Zhangping Kimura, our Company, Green Oceans, Green Seas, King Wood and Oceanid Investment entered into a supplemental cooperation agreement, pursuant to which Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan transferred their respective 0.9161%, 0.0559%, 0.014% and 0.014% shareholdings in our Company to Oceanid Investment at the consideration of RMB1,832,200, RMB111,800, RMB28,000 and RMB28,000, respectively.
- (k) On 8 November 2011, the Vendors, Zhangping Kimura and Hong Kong Investments entered into a cooperation agreement whereby the Vendors agreed to transfer an aggregate of 4% equity interest of the entity embracing Zhangping Kimura after the Reorganisation to Hong Kong Investments or any nominee appointed by it at the consideration of RMB16.8 million. On 1 March 2012, the Vendors, Zhangping Kimura, our Company, Green Oceans, Green

COMPANY HISTORY AND REORGANISATION

Seas, King Wood and Hong Kong Investments entered into the second supplemental cooperation agreement, pursuant to which Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan transferred their respective 3.6644%, 0.2236%, 0.056% and 0.056% shareholdings in our Company to Hong Kong Investments at the consideration of RMB15,390,480, RMB939,120, RMB235,200 and RMB235,200, respectively.

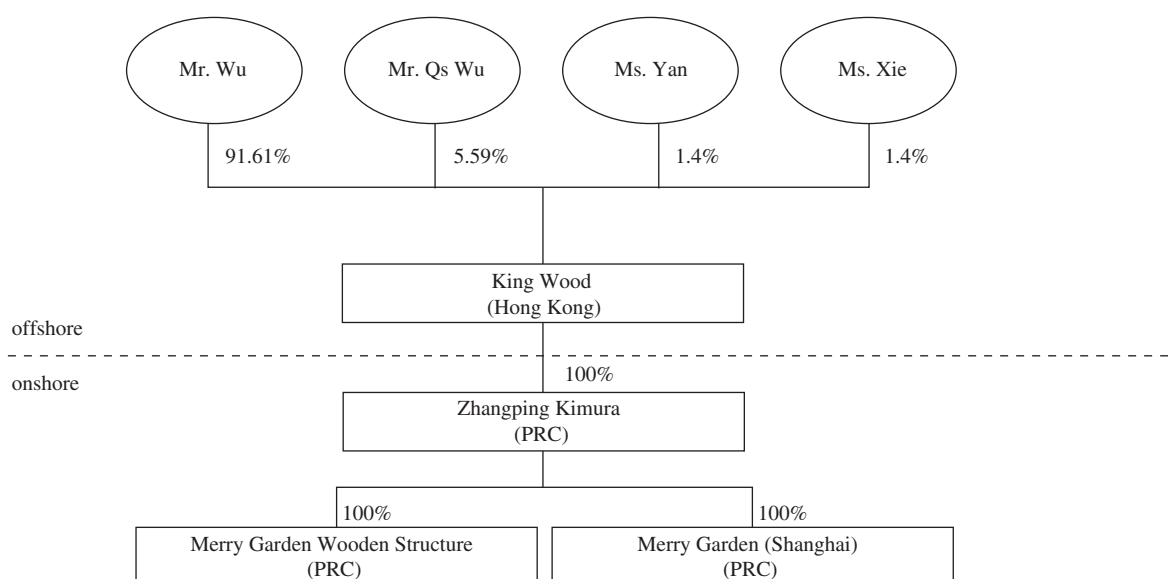
- (l) Pursuant to the special resolutions of our Shareholder passed on 27 March 2012, the 390,000 authorised shares of HK\$1 each of our Company were sub-divided into 39,000,000 Shares of HK\$0.01 each.
- (m) On 16 April 2012, Green Seas and Mr. Wu entered into a share transfer agreement pursuant to which (i) Green Seas acquired all Shares held by Mr. Wu in our Company; and (ii) Green Seas allotted and issued 1 share to Mr. Wu as consideration for the aforesaid acquisition.
- (n) The Reorganisation was completed on 16 April 2012. As a result of the Reorganisation, our Company became the ultimate holding company of our Group.

PRC legal compliance

According to the Circular No.75, if a PRC resident wants to use an overseas special purpose vehicle (i.e. the overseas enterprise directly established or indirectly controlled by the PRC resident for the purpose of overseas stock financing for the assets or interests held by him in the PRC enterprise) to conduct return investment in the PRC, i.e. direct investment in the PRC, the PRC resident shall submit the prescriptive documents to the local branch of SAFE for foreign exchange registration in respect of his overseas investments. Mr. Wu, Mr. QS Wu, Ms. Yan and Ms. Xie completed the aforesaid procedures for foreign exchange registration on 10 January 2012.

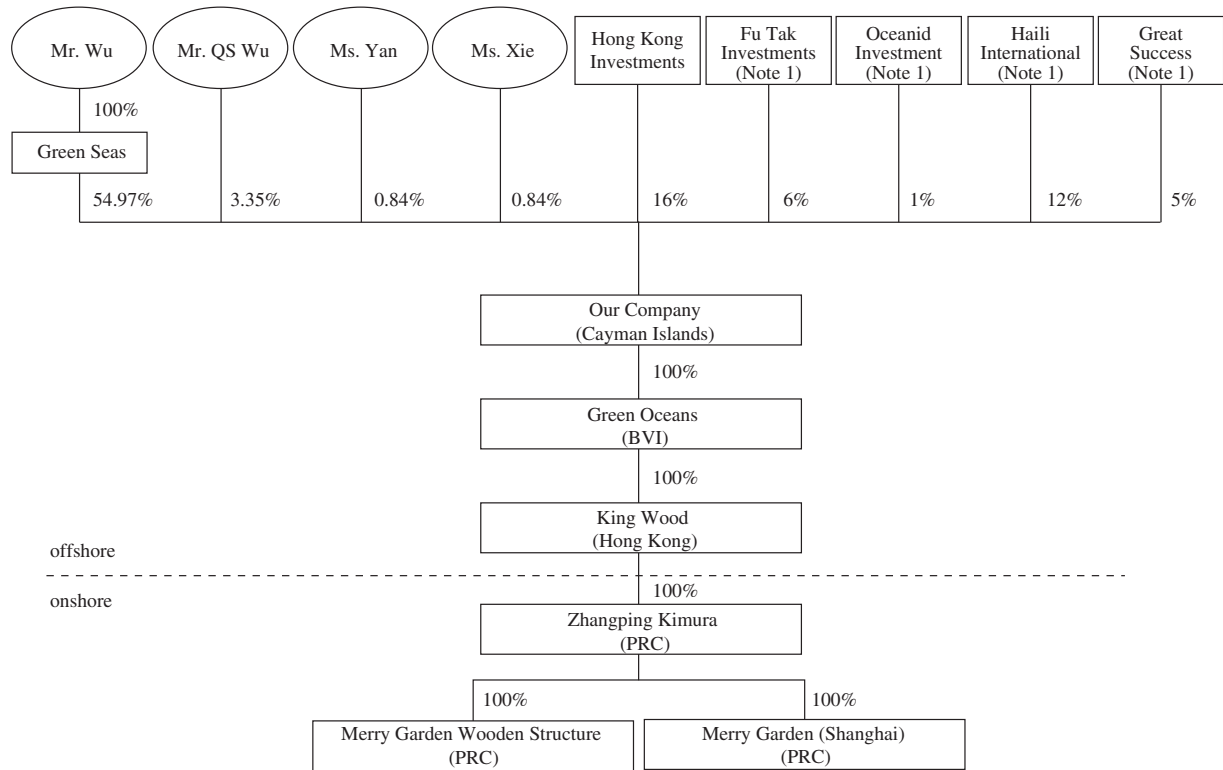
OUR CORPORATE STRUCTURE

Prior to the Reorganisation, the corporate structure of our Group was as follows:



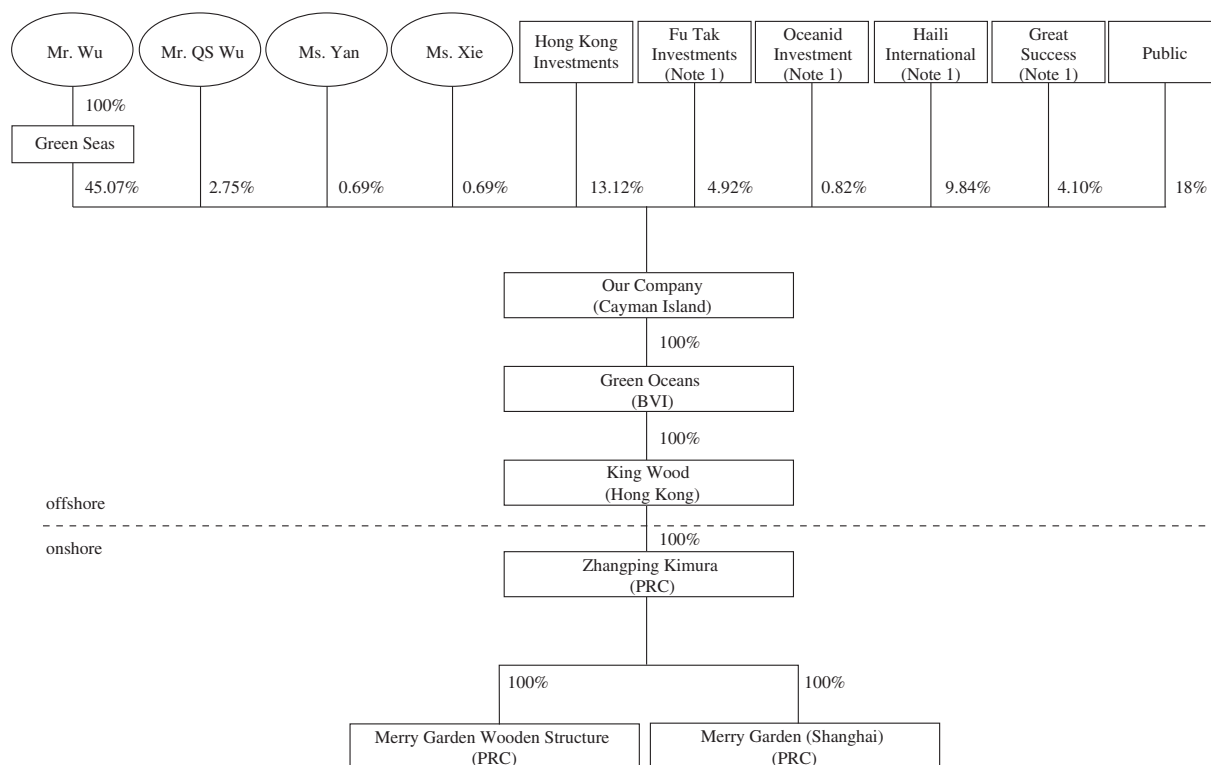
COMPANY HISTORY AND REORGANISATION

Set forth below is our corporate structure of our Group prior to completion of the Global Offering:



COMPANY HISTORY AND REORGANISATION

Immediately following the completion of the Capitalisation Issue and the Global Offering (assuming that the Over-allotment Option and options that may be granted under the Share Option Scheme have not been exercised), the corporate structure and shareholding of our Group will be as follows:



Note 1

The Shares held by Fu Tak Investments, Oceanid Investment, Haili International and Great Success are considered as part of the public float since Fu Tak Investments, Oceanid Investment, Haili International and Great Success, and their respective beneficial owners are Independent Third Parties.

BUSINESS

OVERVIEW

We are a wooden leisure products enterprise in the PRC covering the research and development, design, production and sale of leisure household products and timber villas, sheds and their related parts and structures. We have launched a series of wooden leisure products in order to espouse a leisure and natural lifestyle.

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

During the Track Record Period, our revenue was mainly derived from OEM and ODM sales. Revenue from our OEM and ODM business increased from approximately RMB110.0 million for the year ended 31 December 2009 to approximately RMB172.5 million for the year ended 31 December 2010 and further to approximately RMB240.9 million for the year ended 31 December 2011. While we are able to maintain a substantial growth in revenue from our OEM and ODM businesses, we have explored additional revenue sources by introducing our “Merry Garden 美丽家园” own-branded products into the PRC market since 2010. For the years ended 31 December 2009, 2010 and 2011, our revenue derived from our own-branded products represented approximately nil, 11.0% and 18.8%, respectively, of our total revenue during the same period. Given the significance of and the contribution made by our OEM and ODM businesses, the introduction of our own-branded products will not represent a material shift in our business model.

With rising levels in domestic consumption, a series of products was launched by us to satisfy the demand from leisure industry sectors such as tourist scenic spots, rural tourism, leisure clubhouses and private villas. Our products are produced by combining domestically-made wood preservation technologies together with innovative product designs.

As we traditionally derive the majority of our revenue stream from our OEM and ODM businesses we continue to cultivate and maintain long-term business relationships with our overseas retail company customers, which include retailers in Japan and Germany who possess retail point of sales networks, and our trading company customers. Since the expansion of our PRC business in 2010, our “Merry Garden 美丽家园” brand has gradually expanded from Fujian Province into other provinces of the PRC, including Guangdong Province and Shanghai, respectively.

International business

We sell our products to overseas markets on an OEM and ODM basis. Our international markets include North America, the Asia-Pacific (exclusive of the PRC) and Europe. Since our establishment, our products have been well received by our international customers which include trading company customers and retail companies. For the years ended 31 December 2009, 2010 and 2011, our Group’s revenue derived from international sales was approximately RMB110.0 million, RMB123.8 million and RMB158.2 million, respectively.

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The PRC Market

For the years ended 31 December 2009, 2010 and 2011, our Group's revenue derived from domestic sales was approximately RMB0.04 million, RMB75.8 million and RMB149.0 million, representing approximately 0.03%, 38.0% and 48.5% of our total revenue, respectively. Our principal PRC customers are located in Fujian Province, Guangdong Province and Shanghai. In addition to our ODM sales, we also sell our own-branded products through distributors who possess their own points of sales, trading company customers and to direct end users. Sales from our own-branded products amounted to approximately RMBnil, RMB22.0 million and RMB57.7 million respectively in the years ended 31 December 2009, 2010 and 2011, representing approximately nil, 11.0% and 18.8% of our total sales revenue during the same period. With a view to increasing our market share and brand recognition of the "Merry Garden 美丽家园" brand, we established and opened our first self-operated store in Zhangping city, Fujian Province in December 2011. It is our plan to open more self-operated stores as part of our future plans. Nonetheless, we will maintain our development of our OEM and ODM businesses and there has been no material shift in our business model. Our plan to explore additional revenue sources through establishing more self-operated stores for our own-brand products will be our additional business focus.

The table below set out the revenue by product nature during the Track Record Period and up to 30 April 2012 (based on our unaudited management accounts):-

| | Years ended 31 December | | | | | | Four months ended 30 April | |
|------------------------|-------------------------|--------------|----------------|--------------|----------------|--------------|----------------------------|--------------|
| | 2009 | | 2010 | | 2011 | | 2012 | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| OEM | 89,419 | 81.3 | 108,664 | 54.4 | 148,581 | 48.4 | 58,986 | 39.8 |
| ODM | 20,614 | 18.7 | 63,829 | 32.0 | 92,361 | 30.1 | 40,350 | 27.3 |
| Merry Garden (美丽家园) | — | — | 21,977 | 11.0 | 57,685 | 18.8 | 44,166 | 29.8 |
| Others | — | — | 5,133 | 2.6 | 8,524 | 2.7 | 4,563 | 3.1 |
| | <u>110,033</u> | <u>100.0</u> | <u>199,603</u> | <u>100.0</u> | <u>307,151</u> | <u>100.0</u> | <u>148,065</u> | <u>100.0</u> |

Product Design

As at the Latest Practicable Date, we employed a product-design team of 20 designers. In 2010, we were awarded and recognised for and as a Wood Structure Application Model Enterprise of the China Wood Preservation Industry (中國木材保護工業防腐木材工程應用示範企業). As at the Latest Practicable Date, we sold more than 400 models of products. Our designers possess the ability to custom-make our products to fit our customer's specifications and the versatility to continuously create new product lines. During the Track Record Period, our design team launched on average approximately 120 new and improved products per annum, including enhanced versions of our existing products. We have engaged three eminent professors to assist our design team. These three professors are experts in the fields of garden design and structural engineering, respectively, and assist us, in the fields of wood structures. In 2011, we contractually cooperated with Nippon Sou Ken Co, Ltd (日本創建株式會社) to provide our designers with conceptual blueprints with respect to the design

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of timber villas. The intellectual property of these blueprints, if materialised, belongs to us in accordance with our cooperation agreement. Furthermore, our design team conducts market research and from time to time participates in various PRC and international exhibitions and sales conventions. We maintain a policy of seeking patent protection where appropriate for inventions embodied in our products. Currently, we have successfully registered 43 patents in the PRC with a further 36 are pending approval. These patents can protect our relevant products by prohibiting other parties from manufacturing, using, selling, offering to sell, or importing such products or any products which are manufactured in accordance with our patented product design without our authorisation.

Technological Applications and Development

We were elected as a member of The Timber Structures of National Technical Committee 41 on Wood of Standardisation Administration of China (SAC/TC41/SC4) (全國木材標準化技術委員會結構用木材分技術委員會) in March 2011. In December 2010, we have held the official position of vice-president of the Wood Preservation Committee of China Timber and Wood Products Distribution Association (中國木材與木製品流通協會木材防腐專業委員會) and in October 2011, we have held the position of vice-president of the China Wood Preservation Industry Association (中國木材保護工業協會). We have participated in the formulation of two currently applicable PRC forestry industry standards, namely “Wood Preservatives” (木材防腐劑) and “Wood Preservation Utilisation Categories and Requirements” (防腐木材的使用分類和要求). Currently, we are responsible for formulating the national standard of the Technical Code for Anti-corrosive Wood Structure Applications (防腐木材工程應用技術規範), and will participate in the formulation of a number of other national standards and the drafting of industry standards. As at the Latest Practicable Date, our research and development activities in wood processing and wood preservation treatments were conducted in-house by our team of 37 researchers. For the years ended 31 December 2009, 2010 and 2011, we incurred research and development expenses of approximately RMB5.7 million, RMB7.3 million and RMB9.8 million respectively. We are also the recipients of a number of awards and certifications, including a national High and New Technology Enterprise (高新技術企業) awarded by the Fujian Provincial Department of Science and Technology (福建科學技術廳), in 2010, an innovative enterprise of the China wood preservation industry (中國木材保護工業創新型企業) awarded by the China Wood Preservation Industry Association in 2011 and one of the top 10 wood preservation enterprises in the China wood preservation industry (中國木材保護工業木材防腐10強企業) awarded by the China Wood Preservation Industry Association and the China Timber and Wood Products Distribution Association Wood Preservation Committee in 2011. In addition, we have maintained close ties with the academic community in our industry in the PRC. For further information on the industry standards and on these academic collaborations please refer to the paragraph headed “Technological Applications and Development” in this section.

Production Facilities

Our production facilities are situated in Zhangping city in south-west Fujian Province. Currently, our production facilities cover a gross floor area of approximately 57,287.59 sq.m which are divided into Zone A, Zone B and Zone C. Zone A comprises 4 workshop buildings and 6 offices or ancillary buildings with a total gross floor area of 7,234.00 sq.m. We established one production line in Zone A which is typically used for the production of our outdoor and indoor furniture products. Zone B comprises 7 workshop buildings and 4 offices or ancillary buildings with a total gross floor area of 11,899.96 sq.m. We established one production line in Zone B which is typically used for the production of our landscape garden products and pet-home designs. Zone C comprises 6 workshop buildings and 4 offices or ancillary buildings with a total gross floor area of 38,153.63 sq.m. We

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established 5 production lines in Zone C which are used for the production of all types of our products. As at the Latest Practicable Date, we had a total of seven production lines employing a total of 429 production staff and we had the capacity to process a maximum of approximately 68,250 cubic meters of wood per annum. Please refer to the paragraph headed “Production Capacity, Production Volume and Utilisation Rate” later in this section for more details.

Financial Performance

For the years ended 31 December 2009, 2010 and 2011, we recorded revenue of approximately RMB110.0 million, RMB199.6 million and RMB307.2 million respectively, gross profit of approximately RMB29.5 million, RMB71.9 million and RMB111.9 million respectively and net profit of approximately RMB16.4 million, RMB53.1 million and RMB70.7 million respectively.

Pricing Policy

We have adopted different pricing policies for our products under the OEM/ODM arrangements and for those under our “Merry Garden 美丽家园” brand.

The prices of our OEM/ODM products are generally determined by their material costs, labour costs, transportation costs and the prevailing exchange rate at the time when our customers make their orders. Further, we also take into account the product’s uniqueness and its design cost when fixing the prices for our ODM products. The ranges of gross profit margin we have set for our OEM and ODM products are between approximately 30% to 35% and 35% to 40% respectively.

For our own-branded products, we determine the prices by making reference to those foreign products’ sale prices in the PRC market and the responses received from our end-user customers to our own-brand promotional activities (such as exhibitions). We also consider other factors when determining the prices of our own-branded products, such as their material costs, labour costs, transportation costs, rental costs of our self-operated stores, sales costs, promotion and advertisement costs, their designs, uniqueness and market exclusivity, the terms and conditions of their after-sales service, and the market information we receive from our distributors (if any).

During the Track Record Period and up to the Latest Practicable Date, we were not required to pay any anti-dumping duties and hence we did not take this issue into account during the pricing process.

OUR COMPETITIVE STRENGTHS

We maintain long-term business relationships with our customers for our OEM/ODM businesses

As we traditionally derive the majority of our revenue stream from our OEM and ODM businesses, we continue to cultivate and maintain business relationships with our trading company customers and overseas retail company customers. After purchasing products from us, our retail company customers will sell them to end-users through their retail networks while our trading company customers will sell our products on a wholesale basis. Our business relationships with trading company customers and overseas retail companies has enabled us to benefit from their market

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experience as well as their wide international distribution network allowing us to reach a diverse and wide consumer base in our international markets. We believe that these mutually beneficial relationships with our trading company customers and overseas retail company customers will continue to strengthen our market presence.

Our “Merry Garden 美丽家园” brand’s anti-corrosive wood has been accredited as a Fujian Top Brand

We were recognised in the industry as a thermo-modified wood brand enterprise of the China wood preservation industry (中國木材保護工業炭化木品牌企業) in 2011 and a wood preservatives brand enterprise of the China wood preservation industry (中國木材保護工業木材防腐劑品牌企業) by the China Wood Preservation Industry Association and as an Wood Products Distribution Association Wood Preservation Committee in 2011, respectively. Moreover, our “Merry Garden 美丽家园” anti-corrosive wood (美丽家园加圖形牌防腐木) was accredited as a Fujian Top Brand product (福建名牌產品) in 2010 by the Fujian Provincial Government.

We possess competent product design capabilities

Our design team continuously conducts market research by participating in sales exhibitions in both our domestic and international markets to ensure that our designs keep abreast with modern trends, to meet future market demand, and to continuously launch new and/or improved products. During the Track Record Period, our design team launched approximately 120 new and/or improved products into the market per annum.

We have also engaged two experts in the industry to provide professional advice to our design team including (1) Professor Zheng Yushan (鄭郁善), supervisor of Ph.D. candidates of College of Forestry of the Fujian Agriculture and Forestry University, the PRC with over 10 years experiences in the timber industry, and (2) Professor Zhu Enchun (祝恩淳), supervisor of Ph.D. candidates of Harbin Institute of Technology, China with over 7 years experiences in the timber industry. We fund our joint design projects and pay an annual consultancy fee of RMB20,000 to each of these experts, as well as extra remuneration for the expert’s participation in the joint design projects. Such remuneration is agreed by both parties prior to the commencement of each joint design project. In addition, we are also entitled to the intellectual property rights derived from our joint design projects during the collaboration period, unless otherwise mandatorily required by PRC laws and regulations, or otherwise agreed by both parties.

In 2011, we worked with Nippon Sou Ken Co, Ltd (日本創建株式會社), a Japanese company which provides our designers with conceptualised blueprint designs for timber villas. Nippon Sou Ken Co, Ltd was incorporated in 1984 and engaged in remodeling and renovation of real estate and residential developments. It is located in Kagoshima, Japan with 28 staff. Nippon Sou Ken Co, Ltd has been a member of a number of different design and architects associations in Kagoshima and has received a number of recognitions for its outstanding achievements.

We have a policy of seeking patent protection where appropriate for new designs embodied in our products. As at the Latest Practicable Date, we had successfully registered 43 patents in the PRC with a further 36 are pending approval.

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We are a wooden leisure household products enterprise with extensive experience in wood preservation application technologies

During the Track Record Period, various techniques for wood preservation, including anti-corrosive wood, thermo-modified wood, fire-retardant wood treatments and anti-cracking wood technologies were widely applied to our products. In addition, we are currently conducting research into anti-corrosive wood technologies, heat-treated thermo-modified wood and wood density enhancement technologies.

We have engaged a number of experts in the industry to provide professional advice to our research and development team. Professor Wang Qingwen (王清文) has collaborated with us in the field of FRW technologies. He has over 8 years experience in the timber industry. Professor Jiang Mingliang (蒋明亮) and Professor Cheng Kanghua (程康华) have collaborated with our research and development team to develop new technologies in the fields of wood preservation and FRW technologies. Professor Jiang Mingliang, graduated from Department of Chemistry of Wuhan University and attained his doctoral degree at China Agricultural University with over 8 years experience in the timber industry. He is a research fellow of the Chinese Academy of Forestry Timber Industry Wood Protection Research Center. Professor Cheng Kanghua, is a supervisor of master degree candidates at the Institute of Chemical Engineering of Nanjing Forestry University with 10 years experience in the timber industry. We funded our joint researches and pay an annual consultancy fee of RMB20,000 to each of our experts, as well as extra remuneration for the expert's participation in the joint research. Such remuneration is agreed by both parties prior to the commencement of each joint research. In addition, we are also entitled to the intellectual property rights derived from our joint researches during the collaboration period, unless otherwise mandatorily required by PRC laws and regulations, or otherwise agreed by both parties.

Please refer to the paragraph headed “Technological Applications and Development” under this section for further details of our cooperation with research experts.

We have been accredited with certifications by various international institutions in our industry

Carrying FSC and PEFC accreditations demonstrates that the timber materials used for our products carrying FSC and PEFC labels are sourced from accredited planted forests and that our products are in compliance with the social and environmental standards relating to the industry which enables our products to access markets that possess a predilection with respect to environmental sustainable consumption and which possess environmental-entry barriers, such as Europe and the United States.

Accreditations such as FSC and PEFC confers to us a competitive advantage especially with respect to our development in international markets where there is heightened awareness in respect of environmental issues and where many consumers elect to purchase only products that carry such accreditations.

We possess an experienced management team

We possess a management team with extensive experience in the timber products industry. The management of our Group is led by Mr. Wu who possesses over 10 years of experience in the industry and has been responsible for the overall strategic direction, management and operations of our Group. The extensive knowledge and experience of our management team has been crucial to the growth and development of our Group in recent years and will be crucial in our implementation of our key strategies in the future.

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OUR STRATEGIES

1. Maintaining and enhancing our business relationships with our existing OEM and ODM customers and further developing our OEM and ODM networks

As we traditionally derive the majority of our revenue stream from our OEM and ODM businesses, we aim to maintain and enhance our business relationships with our existing OEM and ODM customers and further develop our OEM and ODM networks. We strive to understand our OEM and ODM customers' production requirements and expected order size by allocating sufficient production capacity to accommodate their demand. We also attempt to identify new OEM /ODM customers by participating in international and PRC exhibitions and sales conventions. Up to May 2012, we secured orders of approximately RMB1.7 million from new OEM and ODM customers from the United Kingdom, Canada and PRC.

2. Expanding our production capacity and enhancing our production efficiency

In order to meet increasing demand from our overseas and PRC customers, we intend to increase our production capacity and enhance our production efficiency. We intend to enhance the layout of our production facilities, our technical processes and purchase more advanced production equipment to increase our production capacity. We also plan to improve our production efficiency through the upgrading of our production facilities in order to reduce our reliance on labour and to further reduce our costs of production. We intend to increase our competitive advantages by:

- increasing the size of our production facilities and relevant ancillary facilities;
- formulating an improved layout for our production facilities and adopting more sophisticated technical processes;
- adopting more highly efficient and advanced equipment; and
- upgrading and improving our internal controls in order to enhance our management efficiency.

In view of the aforesaid, our Group has expanded its drying treatment capacity in 2010 and 2011 and also expanded its production facilities in 2011 with additions of buildings and machineries amounting to approximately RMB36.5 million and RMB9.3 million respectively.

We intend to expand our production capacity by acquiring new land in close proximity to the existing production facility, building new factory facilities and establishing two additional assembly lines for timber villas, sheds and their related parts and structures. We have identified a piece of land of approximately 57,000 sq.m. For further details with regards to the new land our Company intends to acquire, please refer to the description of our acquisition plan of Land B ("Land B") set out in the paragraph headed "Property" under the section headed "Business" in this prospectus. In the event we cannot acquire Land B, our Group will locate to another suitable site. We also intend to acquire new machineries including 2 to 3 sets of sawing, polishing and processing machines to establish the new assembly lines.

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It is expected that the production capacity expansion plan will require capital expenditure of approximately RMB101 million. The table below sets out the breakdown for expanding our production capacities:

| | <i>RMB'000</i> |
|----------------------------|----------------|
| Land | 36,000 |
| Factories | 30,000 |
| Machineries | 30,200 |
| Other supporting equipment | <u>4,800</u> |
| Total | <u>101,000</u> |

The expansion plan is expected to be funded by approximately RMB39.7 million from the net proceeds of the Global Offering and approximately RMB61.3 million from our internal resources and/or bank borrowings.

We anticipate that the above expansion plans will commence from August 2012 and it is expected that the two production lines will be completed by November 2012 and March 2013 respectively. The said two production lines will have a production capacity of 30,000 m³ per year and 15,000 m³ per year respectively.

As at the Latest Practicable Date, our Group had a capital commitment of approximately RMB10.3 million for our production capacity expansion plans.

3. Establishing self-operated stores in the PRC

We intend to establish self-operated points of sale in major cities and tourism cities in the PRC by opening a number of self-operated flagship stores. The establishment of self-operated stores aims to provide us with additional revenue penetration channels and increase market awareness with respect to our products and our “Merry Garden 美丽家园” brand, which is expected to increase our market share and penetration rate. Our strategies include:

- establishing large-scale flagship stores in major cities in the PRC, offering sales, product displays and design, customer services and opportunities for customers to try our products. This will enable us to establish direct contact and interactions with middle to high-end income consumer groups;
- establishing medium and small size self-operated stores in major tourism cities in the PRC to achieve greater sales network coverage in our major markets and to enable us to establish direct contact with target customers;
- by attracting more distributors and retailers.

To expand our retail business in the PRC, we plan to establish our own-brand self-operated stores in major provinces and cities at the central and southern part of the PRC. In selecting the location of our stores, we shall consider factors including (i) whether it is nearby tourist spots with natural

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scenery; and (ii) the popularity of such tourist spots with an aim to promote our leisure timber products. During 2012 and 2013, we expect to establish 2 and 3 flagship stores in Fujian, Guangdong, Shanghai, Zhejiang and Chongqing, respectively. During 2012, 2013 and 2014, we also plan to establish 5, 10 and 5 retail stores of relatively smaller scale, in various locations such as Fujian, Guangdong, Zhejiang, Jiangsu, Hainan, Shanghai and Beijing, etc. The approximate size of our stores are expected to range from 70m² to 800m². The estimated expenditure for establishing a self-operated store and a flagship store are RMB0.8 million and RMB1.8 million respectively. To ensure a stable operation of stores, we target premises with leases for a period of between 3 to 5 years. We expect the relevant capital expenditure required to be approximately RMB7.6 million in 2012, RMB13.4 million in 2013 and RMB4.0 million in 2014. Furthermore, we plan to set up an office in Shanghai to oversee our retail operations. Such capital expenditure required is expected to be approximately RMB6.5 million. Approximately RMB1.5 million will also be applied in 2013 to establish a computerised system relating to the retail sales and inventory management. The abovementioned plan is expected to be funded by the proceeds from the Global Offering.

Measures to manage our retail stores expansion plans

We are relatively new to the retail industry. We have established our first self-operated store in December 2011. In order to manage our retail store expansion plans, we:

- have established a designated team to oversee the overall implementation of the expansion plans. This team, which is led by Mr. QS Wu, our executive Directors, comprises of Ms. Liu Lifang (劉麗芳), retail sales manager of our self-operated store, and Mr. Wu Xingtian (吳興添), our sales manager. Ms. Liu Lifang has retail experience in a furniture company from 2009 to 2012. Mr. Wu Xingtian has retail experience in a flooring shop from 2008 to 2010. For details of Mr. QS Wu's qualification and experiences, please refer to the section headed "Directors, Senior Management and Staff" of this prospectus;
- have set up Merry Garden (Shanghai) and intend to establish an office in Shanghai to oversee the retail operations and to support the work of the above designated group;
- plan to recruit qualified and experienced personnel, engage sales experts to provide consultation services and training of our existing staff members to operate and manage our own retail sales network;
- plan to hire professionals with such experience and to provide additional training to our existing staff; and
- plan to regularly review the market responses, sales revenue, turnover rate, costs of operations and other relevant factors in relation to the said stores and evaluate the pace and extent of our future development with respect to the expansion of our self-operated stores and flagship stores.

Competitive landscape in the PRC market

We intend to establish self-operated stores for our own-branded products. The industry for timber villas, sheds and their related parts and structures, and leisure household products is highly competitive in the PRC market. Although there are some well-known enterprises in the market, none of them dominates.

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Liquidity management

The operation of such self-operated stores shall require more working capital, including retail stores rental expenses, staff cost, advertising cost etc.

In order to monitor and strengthen our liquidity position, our management plans to (i) review our Group's liquidity position through preparation of cash flow forecasts on a monthly basis; (ii) obtain support from banks to secure financing when necessary; (iii) shorten our inventory turnover days by controlling the quantity of raw materials purchased after reviewing the sales volume of our products; (iv) control budget to balance funding needs and supply; (v) prioritise and plan the capital expenditures; (vi) carefully monitor the major elements in our cost structure such as store rentals, wages to our sales staff and advertising costs for better cost control; (vii) establish our own inventory management system including recording of our stock, regular stock taking investigations on any overage, shortage or damage of our stock; and (viii) strengthen the control of receivables by timely reviewing the status of outstanding debts owing to our Group and actively following up the overdue receivables from our debtors.

Impact of expansion into retail business on product pricing and cost structure

The operation of such self-operated stores may have an impact on our cost structure. It is estimated that the operating costs for each flagship store and retail store shall be around RMB1.4 million and RMB0.7 million per annum respectively. Such operating costs will include retail stores rental expenses, staff costs, advertising costs etc. In addition to taking into account our product, operational costs, the market and feedback from our customers, our Directors will also consider the costs relating to the self-operated stores when determining the selling price of our products.

We will also carefully monitor the market demand for our products as well as our production capacity expansion schedule and may fine tune the above retail store expansion plans if necessary.

4. Increasing our corporate profile and promoting our “Merry Garden 美丽家园” brand

We intend to promote market awareness of our Company through various marketing and promotional activities, as well as the establishment of self-operated flagship stores for our own-branded products. We intend to strengthen our relationships with our existing customers and expand our international markets through meeting new OEM and ODM customers. In addition, we intend to leverage the rapid growth opportunities at tourist scenic spots, rural tourism spots and leisure clubhouses in the PRC, and to increase our market penetration in large and medium sized cities and tourism cities in the PRC through the establishment of self-operated stores. Our market expansion, sales and promotional activities shall include:

- attending international and PRC exhibitions and sales conventions;
- funding of activities and events in respect to wood preservation, wood utilisation, energy saving and environmental wood houses organised by the government and industry associations;
- establishing sales network for our own-branded products;
- placing billboard advertisements on expressways and other major roads in major cities;

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- placing advertisements through the mass media including on the internet, television, magazines and other media forms.

5. *Enhancing our research and development and design capabilities*

We plan to enhance our capabilities in market research, product research, development and design. Our objective is to highlight the innovation and practical usage of our brand with a view of enhancing the value-added nature of our products, in particular by:

- improving the existing infrastructure of our research and development centre;
- increasing the number of professional staff in our market research, product research, development and design teams;
- enhancing collaborative relationships with PRC and international tertiary educational institutions and industry associations; and
- establishing market research, product research, development and design centres in major countries with growth potential.

The table below sets out the breakdown of the expected use of proceeds from the Global Offering for enhancing our research and development capabilities:

| | Years ending 31 December | |
|--|-----------------------------|--------------|
| | 2012 | 2013 |
| | RMB'000 | RMB'000 |
| Establishing laboratories and acquiring raw materials and supporting equipment for product testing centre | 4,400 | 3,030 |
| Conducting research with international and PRC tertiary educational institutions and industry associations | <u>800</u> | <u>800</u> |
| | <u>5,200</u> | <u>3,830</u> |

6. *Expanding our business further through merger and acquisition activities*

The timber leisure household products and the timber villas industries are highly fragmented. We anticipate greater market consolidation in the future. We intend to continue to increase our market share significantly and continue our growth. We intend to acquire suitable new brands, distribution platforms and production facilities to complement our existing operations. We believe that selective and targeted merger and acquisition activities will increase our competitiveness and further expand our market share and production capabilities.

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It is our present intention to target small to medium sized companies with timber processing plants, warehouse facilities and/or established distribution networks in the PRC to facilitate the future development of our operations. In evaluating the suitability of potential acquisition targets, we will consider all relevant factors including the location, the size of operation, the quality of facilities and profitability of those targets etc.

As at the Latest Practicable Date, we had not identified any acquisition targets and have not developed any concrete or detailed plans in relation to our merger and acquisition strategies. Given that the industries are fragmented, there are numerous market players who we consider as our potential acquisition targets, if appropriate.

OUR PRODUCTS AND SERVICES

Our principal products can be divided into two main categories namely (i) leisure household products and (ii) timber villas, sheds and their related parts and structures.

The following table sets out the breakdown of our revenue by product categories during the Track Record Period:

| | Years ended 31 December | | | | | |
|--|-------------------------|--------------|----------------|--------------|----------------|--------------|
| | 2009 | | 2010 | | 2011 | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Leisure household products | 92,680 | 84.2 | 158,712 | 79.5 | 217,285 | 70.8 |
| Recreational products | 30,522 | 27.7 | 45,789 | 22.9 | 74,750 | 24.3 |
| Landscape garden products | 35,343 | 32.1 | 45,402 | 22.8 | 46,918 | 15.3 |
| Outdoor and indoor furniture | 6,291 | 5.7 | 41,970 | 21.0 | 64,532 | 21.0 |
| Pet-home designs | 20,524 | 18.7 | 25,551 | 12.8 | 31,085 | 10.2 |
| Timber villas, sheds and their related parts and structures | 17,353 | 15.8 | 35,758 | 17.9 | 81,342 | 26.5 |
| Others | — | — | 5,133 | 2.6 | 8,524 | 2.7 |
| | <u>110,033</u> | <u>100.0</u> | <u>199,603</u> | <u>100.0</u> | <u>307,151</u> | <u>100.0</u> |

I. Leisure household products

We offer a wide range of leisure household products which can be further sub-divided into four categories:

1. Recreational products

Our recreational products focus on children's recreational and leisure activities, such as play swings, children's sand tables and outdoor rocking chairs. Our recreational products are used in public parks and private gardens and courtyards, the designs of which possess multi-functional characteristics. Our recreational products are usually sold without installations. The picture shown below is of one of our products in this sub-category after installation.



Recreational products

2. Landscape garden products

Our landscape garden products are designed for use in both public and private outdoor areas such as gardens, scenic spots, courtyards and parks. The products under this category vary in nature and size. They include flower carts, railings and litter bins. Our landscape garden products are usually sold without installations. The pictures shown below are of some of our products in this sub-category after installation.



Landscape garden products

BUSINESS

3. *Outdoor and indoor furniture*

Our outdoor and indoor furniture includes patio furniture such as tables and chairs for outdoors use, as well as indoor furniture which includes beds and cabinets. Our range of furniture is designed to complement our other timber-made products such as landscape garden products, which is part of our strategy of espousing a leisure lifestyle-brand. Our outdoor and indoor furniture products are usually sold without installations. The pictures shown below are of some of our products in this sub-category after installation.



Outdoor and indoor furniture

4. *Pet-home designs*

We produce a variety of pet-home designs each with their own unique designs. We can also custom-build these products to our customer's specifications upon request. Some of our products in this category include bird houses, dog homes and playhouses, rabbit hutches and hamster cages, etc. Our pet-home designs products are usually sold without installations. The pictures shown below are of some of our products in this sub-category after installation.



Pet-home designs

BUSINESS

II. Timber villas, sheds and their related parts and structures

Our products under this category can be classified into timber villas, sheds and their related parts and structures and treated logs. During the Track Record Period, we recorded revenue from the sales of these products as follows:

| | Years ended 31 December | | |
|------------------------------|-------------------------|---------------|---------------|
| | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 |
| Timber villas | — | 2,235 | 10,670 |
| Non-residential timber sheds | 7,223 | 5,556 | 9,967 |
| Related parts or structures | 10,130 | 22,644 | 45,461 |
| Treated logs | — | 5,323 | 15,244 |
| | <u>17,353</u> | <u>35,758</u> | <u>81,342</u> |

Timber villas

We tailor-make our timber villas on a project basis based on our customers' requirements. Our design team will make a design proposal which will be given to qualified design institutions for their endorsement before we commence production. Depending on their size, the products are delivered to customers in parts. The installation of our timber villas are either arranged by us or by our customers in accordance with the terms of installation contracts. Where the installation is arranged by us, we engage and directly deal with third party contractors to perform the installation services. During the installation process, we usually arrange 1 to 2 of our staff to be on site in order to advise and answer queries in relation to the installation. Our timber villas are used and installed at leisure resort clubs, tourist scenic spots and parks.

BUSINESS

In 2010, we took part in 2 projects involving a total of 10 timber villas which were completed in the same year with a contract value of approximately RMB2.2 million. In 2011, we took part in 5 projects involving a total of 19 timber villas. Such projects, with an aggregate contract value of approximately RMB15.0 million, are expected to be completed in 2012. The area of such timber villas ranges from 80 sq.m. to 1,183.75 sq.m.



Timber villas

Non-residential timber sheds

Apart from timber villas, we also produce non-residential timber sheds for leisure or storage purposes including pavilions and gazebos, etc.. Compared to our timber villas, they are smaller in size with size range of between 1.6 sq. m. to 17.5 sq.m. These products are delivered to our customers in parts, and packed together with their installation manuals and sold in sets. We typically do not offer installation services to our customers. We sell non-residential timber sheds at prices ranging from RMB531.7 to RMB32,478.6. The picture shown below is one of our products in this category after installation.



Non-residential timber shed

BUSINESS

Related parts and structures

We sell self-designed or custom made related parts or structures of timber villas such as wooden frames, balconies and roofs. The installation work, if any, will usually be carried out by our customers themselves. We sell related parts and structures at prices ranging from RMB8.2 to RMB5,598.3. The picture shown below is one of our products in this category after installation.



Related parts or structures

Treated logs

We also sell treated logs by applying different production processes/treatments such as drying, coating, polishing and/or preservative treatments. These products will then be further processed by our customers according to their specific needs. We sell treated logs at prices ranging from RMB1,111.1 per m³ to RMB4,700.9 per m³.

For further details of the design and production process, please refer to the paragraph headed “Our production operations and facilities” in this section.

BUSINESS

The following table sets out the breakdown of our revenue by sales channels for timber villas during the Track Record Period:

| | Years ended 31 December | | | | | |
|--------------------|--------------------------------|---------------------|----------------------|---------------------|----------------------|---------------------|
| | 2009 | | 2010 | | 2011 | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Trading companies | 16,675 | 96.1 | 4,620 | 12.9 | 15,981 | 19.6 |
| End-user customers | — | — | 22,432 | 62.7 | 42,610 | 52.4 |
| Distributors | — | — | 8,531 | 23.9 | 22,498 | 27.7 |
| Retail Companies | <u>678</u> | <u>3.9</u> | <u>175</u> | <u>0.5</u> | <u>253</u> | <u>0.3</u> |
| | <u><u>17,353</u></u> | <u><u>100.0</u></u> | <u><u>35,758</u></u> | <u><u>100.0</u></u> | <u><u>81,342</u></u> | <u><u>100.0</u></u> |

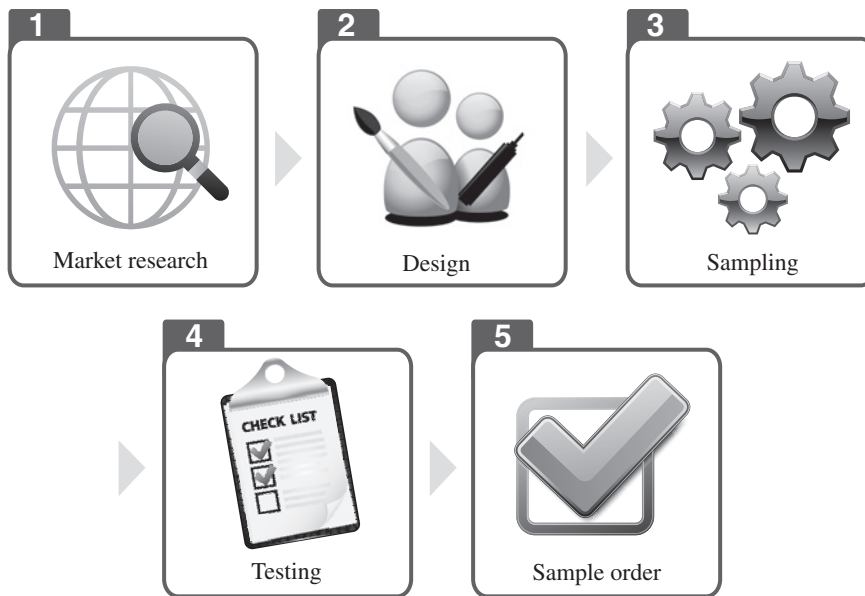
During the Track Record Period, we supplied our products including timber villas and/or wooden footways etc. to a number of projects including: the wooden footways around Fujian Longyan Tianma Mountain (福建龍岩天馬山木棧道), the South Fujian Chamber of Commerce Leisure Club (閩南商會會所休閒木屋項目), the Jiupengxi Tourist Scenic Spot in Zhangping city (福建漳平九鵬溪旅遊景區), the Straits Modern Timber Industry Exhibition Center in Fuqing, Fujian (海峽兩岸現代木業展示中心), the Jianning ski field (建寧滑雪場) in Jianning County (建寧縣) Sanming Prefecture (三明市) Fujian Province, Jiangxi Xinhe Trading Company Limited club (江西鑫合貿易有限公司會所) construction projects in Shangrao Prefecture, Jiangxi Province, respectively. For the years ended 31 December 2009, 2010 and 2011, we derived a revenue of approximately nil, RMB2.6 million and RMB10.7 million respectively from the projects mentioned above.

OUR PRODUCTION OPERATIONS AND FACILITIES

During the Track Record Period, we designed and manufactured our own products or manufactured products as per our customer's specifications and designs at our own production facilities. During the high-season for our production, we purchase semi-finished products that have already been basically processed by third parties. Once we obtain these semi-finished products they will be further processed by us at our production facilities.

BUSINESS

The design process in respect of leisure household products is as follows:



Market Research — our designers analyse market trends by researching the competitive environment, attending PRC and international exhibitions and sales conventions to ascertain end-users' preferences and obtaining feedback from our customers.

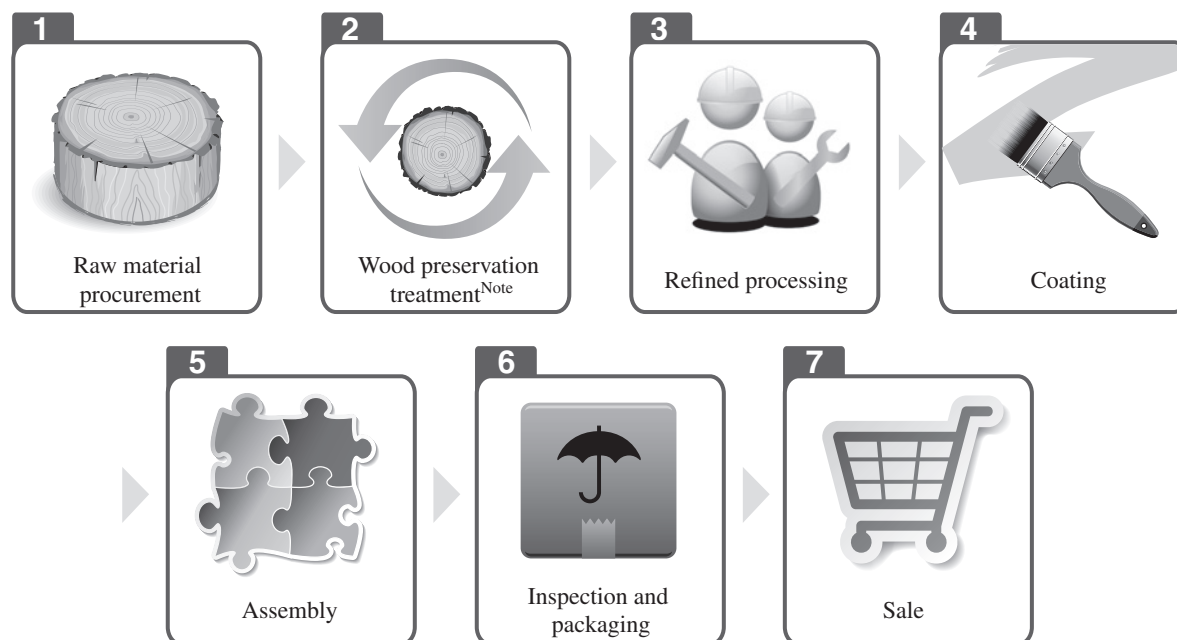
Design — we design our products based on the results of our market research.

Sampling and Testing — we produce samples of our new products. The samples are used to evaluate and test the safeness of our products. The evaluation and testing will be conducted several times.

Sample order — once the sample products pass our evaluation and testing, we provide samples to our customers. We will further improve our product designs based on our customers' feedback. The products will be put into mass production after such improvements have been made.

BUSINESS

The production process of our leisure household products is as follows:



Note: Depending upon the nature of the products, we may, in certain circumstances, apply wood preservation treatments to our products during other steps in the manufacturing stage such as the coating process;

Raw Material Procurement — we source raw materials according to our production plans. The raw materials will be inspected prior to our acceptance of them.

Wood Preservation Treatment — we apply wood preservation treatments to we purchased. The wood preservation treatments include ACQ-D preservative treatment, fire-retardant wood processing and heat-treated thermo-modified processing.

Refined processing — we process our product parts by slotting, tenoning, drilling holes and curve milling.

Coating — we apply different colours to the surface of our products.

Assembly — we assemble products into finished products.

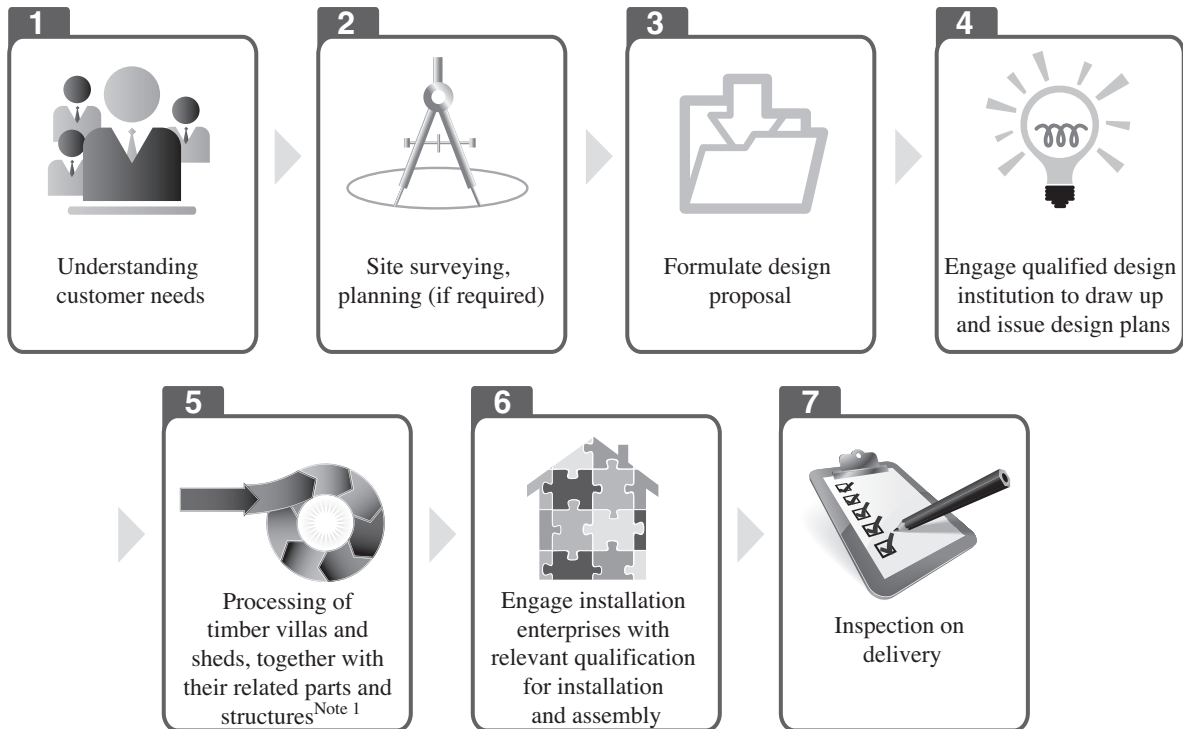
Inspection and packaging — we inspect the appearance and functionality of our products in accordance with their quality standards. We package and label the products once the products pass our inspection.

Wood preservation treatments

We apply various wood preservation treatments according to different product types and taking into consideration the market where our products will be sold. As at the Latest Practicable Date, the primary treatment techniques we employed include ACQ-D preservation treatments, heat-treated thermo-modified wood treatments and FRW treatments.

BUSINESS

Design, production and assembly services for timber villas, sheds and their related parts and structures



Note: The basic steps for the production process of timber villas, sheds and their related parts and structures are the same as those for the production of leisure household products.

Understanding our customer needs — we plan the design of our timber villas in accordance with our customers' preference, intended location of the villas and/or sheds and their surrounding environment. We typically produce our timber villas, sheds and their related parts and structures, upon receipt of our customers' orders. Nonetheless depending on the size and the type of products ordered by our customers, we may utilise our inventories of related parts of our timber villas to meet their needs.

Site surveying, planning (if required) — when our customers require (i) tailor-made timber villas, or (ii) timber pavilions and gazebos, or (iii) large scale construction projects, we allocate a team of designers to conduct site selection, floor planning, onsite surveying and preparation for design proposal.

Formulate design proposal — we discuss design proposals with our customers and formulate the design proposals once the customers have initiated their acceptance.

Engage qualified design institutions to draw up and issue design plans — we deliver our design proposals to qualified design institutions for their approval and production blueprint.

BUSINESS

Processing of timber villas, sheds and their related parts and structures — we normally produce the major parts for our timber villas at our production facilities and install them onsite. The production process in respect of our timber villas, sheds, and their related parts and structures are similar to the production process used for our leisure household products.

Engage installation enterprises with the requisite qualifications for installation services — Our subsidiary, Merry Garden Wooden Structure, arranges and advises on the installation of timber villas products carried out by third party installation enterprises.

Inspection — our customers inspect the timber villas or timber pavilions and gazebos once assembly and installation has been duly completed.

Production Facilities

Our production facilities are situated in Zhangping city in south-west Fujian Province. Currently, our production facilities cover a gross floor area of approximately 57,287.59 sq.m. which are divided into Zone A, Zone B and Zone C. Zone A comprises 4 workshop buildings and 6 offices or ancillary buildings with a total gross floor area of 7,234.00 sq.m. We established one production line in Zone A which is typically used for the production of our outdoor and indoor furniture products. Zone B comprises 7 workshop buildings and 4 offices or ancillary buildings with a total gross floor area of 11,899.96 sq.m. We established one production line in Zone B which is typically used for the production of our landscape garden products and pet-home designs. Zone C comprises 6 workshop buildings and 4 offices or ancillary buildings with a total gross floor area of 38,153.63 sq.m. We established 5 production lines in Zone C which are used for the production of all types of our products.

We allocate our production team to manufacture different product categories. As at the Latest Practicable Date, we had seven production lines employing a total of 401 production staff.

Production Capacity, Production Volume and Utilisation Rate

Depending on individual product requirements, different production processes/treatments will be applied to our products. Since all timber except for semi-finished products/processed timber boards have to undergo the timber drying treatment, we consider our timber drying treatment capacity as the primary basis for calculating our production facilities' utilisation rate.

In addition to timber drying treatment, most of our products also go through the coating process and the polishing process. These are the 3 major production processes in relation to our products.

BUSINESS

(i) Timber drying facilities

As at 31 December 2011, we have 13 machines and 33 employees working in this production process. The production capacity of each for these machines is approximately 5,400 m³ per annum.

Utilisation rate of our timber drying facilities

| | Years ended 31 December | | |
|--|-------------------------|------|-------|
| | 2009 | 2010 | 2011 |
| Maximum timber drying treatment capacity ^{Note 1} (‘000 m ³) | 41.0 | 47.3 | 68.3 |
| Actual timber drying treatment volume (‘000 m ³) | 40.5 | 47.3 | 53.1 |
| Utilisation rate ^{Note 2} (%) | 98.9% | 100% | 77.8% |

Note 1: The maximum timber drying treatment capacity is calculated on the basis of 24 working hours daily for all existing drying equipment and 355 working days per annum.

Note 2: Apart from using our production facilities for drying timber, we also purchase semi-finished products from external parties during our production high season (i.e. in winter) for the production of parts of the products. Those externally purchased semi-finished products do not need to go through the drying process. Moreover, some of the sawn timber boards we purchased do not need to go through the drying process as well. For the years ended 31 December 2009, 2010 and 2011, the quantity of the sawn timber boards which do not need to go through the drying process and externally purchased semi-finished products used by us were 19,000m³, 27,000m³ and 34,000m³, respectively.

Our Group’s timber drying treatment utilisation rate decreased from 100% in 2010 to 77.8% in 2011 due to the expansion of our new production lines in 2011. Our timber drying treatment utilisation rate had climbed back to 100% in November and December 2011 following the completion of the production expansion.

(ii) Coating facilities

As at 31 December 2011, we have 4 electrostatic machines, 2 dyeing machines, 2 coating machines and 52 employees working in this production process. The production capacity of each of our electrostatic machines, dyeing machines, and coating machines are approximately 13,090 m³, 17,448 m³ and 13,344 m³ per annum.

Utilisation rate of our coating facilities

| | Years ended 31 December | | |
|---|-------------------------|-------|-------|
| | 2009 | 2010 | 2011 |
| Maximum coating capacity (‘000 m ³) | 63.3 | 74.1 | 99.7 |
| Actual coating volume (‘000 m ³) | 50.7 | 68.0 | 92.8 |
| Utilisation rate (%) | 80.2% | 91.7% | 93.2% |

Note: The maximum coating facilities capacity is calculated on the basis of 12 working hours daily for all existing coating facilities equipments and 360 working days per annum. The Directors consider the maximum no. of working hours for a coating facility is 12 hours per day.

BUSINESS

(iii) Polishing facilities

As at 31 December 2011, we have 17 machines and 34 employees working in this production process. The production capacity of each of these machines is approximately 3,468 m³ per annum.

Utilisation rate of our polishing facilities

| | Years ended 31 December | | |
|---|-------------------------|-------|-------|
| | 2009 | 2010 | 2011 |
| Maximum polishing capacity ('000 m ³) | 36.4 | 45.1 | 58.1 |
| Actual polishing volume ('000 m ³) | 33.5 | 42.2 | 56.4 |
| Utilisation rate (%) | 91.8% | 93.5% | 97.1% |

Note: The maximum polishing facilities capacity is calculated on the basis of 10 working hours daily for all existing polishing facilities equipments and 360 working days per annum. The Directors consider the maximum no. of working hours for a polishing facilities is 10 hours per day.

RAW MATERIALS

Our Group's raw materials are primarily softwoods which we purchase from domestic and international suppliers. Softwood is the source of approximately 80% of the world's timber production. The softwoods we use include trees from planted forests with FSC and PEFC accreditation. FSC and PEFC are two non-profit and non-governmental organisations that support environmentally responsible forest management. Each of them has their own forestry certification systems. Products that carry FSC or PEFC certification indicates that they have complied with high social and environmental standards in the timber industry. Our Group first obtained FSC and PEFC accreditations in August 2006 and November 2011 respectively which are both effective for a period of 5 years. In August 2011, we renewed our FSC accreditation for a further 5 years up to August 2016. For details of application and renewal requirements of the FSC and PEFC accreditations, please refer to the section headed "Industry Overview" of this prospectus.

For the years ended 31 December 2009, 2010 and 2011, our purchase of FSC or PEFC certified timber raw materials accounted for approximately 2.9%, 11.3% and 22.3% of our total timber purchases, respectively.

For the years ended 31 December 2009, 2010 and 2011, we have 46, 63 and 78 timber suppliers respectively. Our major timber suppliers are located in Fujian Province, the PRC having maintained business relationships with us for a period of up to 4 years. When we select timber suppliers, we take into consideration factors including (1) the relevant operation permit possessed by the suppliers including the Timber Harvest Licenses (採伐許可證) and Timber Transportation Licenses (木材運輸許可證) (2) the size and manpower of the supplier and its equipment and production; (3) quality; (4) price; (5) reputation of the supplier; and (6) sustainable development.

BUSINESS

For the production of our products carrying FSC and PEFC labels, we are required to ensure that only timber materials from FSC or PEFC certified suppliers are used. For other products, there is no restriction under FSC and PEFC system on source of timber materials. The use of other non FSC and PEFC materials which do not carry their respective labels will not affect our current accreditations.

We have adopted various measures to ensure the legality of our timber raw materials which are not certified by FSC or PEFC accreditations and to ensure our PRC and international suppliers' on-going compliance with relevant environmental laws and regulations. In particular, regarding domestic suppliers, it is our policy to conduct inspections and reviews of their Business Licenses (營業執照) and other licenses or approvals associated with their operations, such as Timber Harvest Licenses and Timber Transportation Licenses for raw timber log suppliers on an annual basis or upon the renewal of such licenses. As advised by our PRC Legal Adviser, only legitimate timber harvesting activities with proper permission from the competent PRC governmental authorities can be granted the Timber Harvest License and Timber Transportation License. Regarding our international procurements, our international suppliers are required to prove the legitimacy of the source of raw timber materials by providing certificates of origin and official plant quarantine certificates prior to each transaction.

Our FSC and PEFC accreditations are valid until 15 August 2016 and 24 November 2016 respectively and are renewable upon assessment by Independent Third Party qualified assessors. To ensure our compliance with requirements and standards under FSC and PEFC, we apply various methods including:

- monitoring the compliance of FSC and PEFC requirements and standards in our production process by Ms. Xie Qingmei, our executive Director, who is assisted by our procurement team with staff possessing engineering and plant inspecting experience. For details of the relevant experience and qualification of Ms. Xie, please refer to the section headed "Directors, Senior Management and Staff" of this prospectus;
- piling raw materials in accordance with the certification they are granted with clear indications during our procurement and production process to comply with the physical segregation requirements under the FSC and PEFC requirements, and labeling the products produced from FSC and PEFC materials with their respective logos; and
- verifying the identities of the accredited suppliers by searching the official website of the FSC/PEFC and requiring the relevant suppliers to provide transaction documents (such as bills and invoices) bearing clear indication of FSC/PEFC accreditation for the materials supplied.

During the Track Record Period and up to the Latest Practicable Date, all of our products made from FSC or PEFC certified materials were produced upon a job-order basis and sold exclusively to our international markets, and exported mainly to the U.S. These products were charged on a cost-plus basis which is similar to our non-FSC or PEFC certified products.

The sales revenue contributed by our FSC/PEFC certified products was approximately RMB3.6 million, RMB21.6 million and RMB67.4 million for the years ended 31 December 2009, 2010 and 2011 respectively.

BUSINESS

Timber materials sourced by us mainly include raw spruce logs, sawn spruce boards, spruce fine-blanking boards and pinewood boards. We may also purchase some semi-finished products that have already been treated and/or processed by third parties suppliers. Once we obtain these semi-finished products they will be further processed by us at our production facilities.

We also source non-timber materials including paint, glue and hardware metal products which are necessary for the production of our products. The following table sets out the breakdown of our total raw material purchases during the Track Record Period:

| | Years ended 31 December | | | | | |
|-------------------------------|-------------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|
| | 2009 | | 2010 | | 2011 | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Timber raw materials | 67,544 | 68.1 | 68,640 | 58.8 | 104,130 | 61.4 |
| Raw spruce logs | 5,017 | 5.1 | 4,604 | 4.0 | 4,471 | 2.6 |
| Sawn spruce boards | 36,149 | 36.5 | 32,384 | 27.7 | 22,042 | 13.0 |
| Spruce fine-blanking boards | 7,904 | 8.0 | 3,182 | 2.7 | 22,071 | 13.0 |
| Sanded spruce boards | 13,212 | 13.3 | 8,406 | 7.2 | 1,114 | 0.7 |
| Pinewood boards | — | — | 3,902 | 3.3 | 24,258 | 14.3 |
| Spruce (fir) boards | — | — | — | — | 10,464 | 6.2 |
| Other timber materials | 5,262 | 5.2 | 16,162 | 13.9 | 19,710 | 11.6 |
| Semi-finished products | 18,382 | 18.5 | 35,163 | 30.1 | 41,585 | 24.5 |
| Others | <u>13,248</u> | <u>13.4</u> | <u>13,009</u> | <u>11.1</u> | <u>24,009</u> | <u>14.1</u> |
| Total | <u><u>99,174</u></u> | <u><u>100.0</u></u> | <u><u>116,812</u></u> | <u><u>100.0</u></u> | <u><u>169,724</u></u> | <u><u>100.0</u></u> |

SUPPLIERS

Our major timber suppliers are located in Fujian Province, the PRC. As at the Latest Practicable Date, we have maintained business relationships with them for a period of up to 4 years.

Our procurement team is responsible for the purchase of our raw materials. After estimating the amount of raw materials required, we will make enquiries with the relevant suppliers for the raw materials we seek to purchase. If suitable terms for purchase can be agreed, a contract will be signed with the supplier and our staff will check the specifications, quantity against the delivery note from our suppliers. Generally, our overseas suppliers are responsible for the delivery of the raw materials to the PRC and are responsible for transportation costs.

BUSINESS

In 2010, we started to import some of our raw materials from suppliers located in North America and Australia. These raw materials are primarily timber logs or boards. For the years ended 31 December 2009, 2010 and 2011, we purchased approximately nil, RMB9.8 million and RMB27.2 million worth of raw materials from our international suppliers, representing nil, 8.5%, and 16.0% of our total purchases of raw materials, respectively.

There are no regular price patterns for the raw materials in the PRC and the international market. The price of raw materials in different countries usually fluctuates according to the following factors, (i) climactic conditions of the respective markets; (ii) transportation costs; (iii) inflation; (iv) seasonal suspension of the processing lines; (v) fluctuations in foreign exchange rates; and (vi) market supply and demand etc. As a result, our purchases from international suppliers diversifies our choice of suppliers, allows us to shift our purchases to international suppliers when domestic timber prices increase due to any change in the aforesaid price influencing factors in the PRC, or vice versa. Apart from the price, our Group can also compare other terms offered by different domestic and international suppliers and obtain raw materials under better terms. In addition, diversifying our purchases from different markets also widens our choice of raw materials, which enables us to select raw materials that better fits our needs or our customers' specifications.

Our domestic suppliers grant us credit periods ranging from 30 to 90 days. The credit periods start to run once raw materials have been delivered to our production facilities and following our approval and acceptance of the raw materials. International suppliers usually require us to make payment by letter of credit or by prepayment.

For the years ended 31 December 2009, 2010 and 2011, our five largest suppliers accounted for approximately 48.3%, 37.0% and 35.3% of our total purchases from suppliers respectively, and our largest supplier for each year accounted for approximately 17.2%, 12.8% and 11.3% of our total purchases from suppliers, respectively.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any supply shortages of timber which had an adverse material impact on our business operations.

During the Track Record Period, none of our Directors, their associates or shareholders holding more than 5% of the issued share capital of our Company held any equity interests or had any management control in any of our five largest suppliers other than JYMY for the years 2009 and 2010 and JJMC for the years 2009, 2010 and 2011.

As at the Latest Practicable Date, none of our Directors, their associates or Shareholders holding more than 5% of the issued share capital of our Company held any equity interests in JYMY, the wife of Mr. Wu Dongping, Ms. Wu Jiao Lan, acted as the director of JYMY, and Mr. Wu acted as the legal representative, the chairman and general manager of JYMY. On the other hand, Mr. Wu acted as the legal representative and executive director, Mr. QS Wu acted as the general manager and Mr. Wu Dongping acted as the supervisor of JJMC. Furthermore, Mr. Wu Dongping also owned 100% equity interest in JJMC as at the commencement of the Track Record Period.

During the Track Record Period, our purchases from JYMY and JJMC in aggregate amounted to RMB11.5 million, RMB17.4 million and RMB2.1 million, representing 11.6%, 14.9% and 1.2% of our total purchases for the years ended 31 December 2009, 2010 and 2011 respectively.

BUSINESS

Nonetheless, on 24 August 2010, both Ms. Wu Jiao Lan and Mr. Wu retired from their aforesaid positions in JYMY and ceased to be members of the management therein. On 10 November 2011, Mr. Wu Dongping had sold all his shares in JJMC to two Independent Third Parties (namely Huang Zijing (黃子敬) and Cai Jinrong (蔡進榮)) and Mr. Wu and Mr. QS Wu were withdrawn from the management of JJMC on 14 November 2011. As such, as at the Latest Practicable Date, both JYMY and JJMC were not associated with us.

SALES AND MARKETING

Our sales and marketing strategies primarily focus on maintaining good business relationships with our existing OEM and ODM customers and expanding our OEM and ODM sales network. Furthermore, since we started selling our “Merry Garden 美丽家园” products in 2010, we have began to focus on promoting our own-branded products as well. We believe that effective marketing is important to us in expanding our market share and gaining recognition from potential customers. At the same time, we have been directly or indirectly involved in a number of special projects in respect of scenic spots and municipal projects. Being involved in such special projects has further enhanced our appreciation of the market. In addition, we actively market our products internationally and in the PRC through various marketing channels. Our principal marketing channels include:

PRC and international exhibitions and sales conventions

During the Track Record Period, we participated in PRC and international exhibitions and sales conventions including:

- The Spoga & Gafa trade show held in Cologne, Germany in 2009 and 2011;
- the 109th and 110th Canton Fair (廣交會) in April and October 2011, respectively in Guangdong, the PRC; and
- the China Furniture and Building Decoration Fair (中國(福州)家居建材博覽會) in November 2011 in Fuzhou, the PRC.

Advertising and promotion

We advertise our products by leasing billboard advertising space situated on highways as well as placing advertisements through newspapers, magazines and television with a view of attracting potential new customers. For the years ended 31 December 2009, 2010 and 2011, approximately RMB0.1 million, RMB0.2 million and RMB1.1 million respectively was incurred on media advertising.

Distribution network

As at the Latest Practicable Date, our distribution networks provided marketing and publicity to us by selling our products (including providing marketing and publicity for customers who need customised products), as a result of which, our own-brand gains greater awareness and higher recognition in the market place. Distribution networks operate as an effective channel to introduce our own-brand to potential new customers.

BUSINESS

International sales

Since our establishment, our products are primarily sold internationally through trading companies and retail companies. We sell our products to overseas markets on OEM or ODM basis. For our overseas OEM business, our customers will set forth products specifications and requirements such as blueprints, required materials for the products as well as anti-corrosive technologies to be applied, when placing orders. We will then send our sample products for their review and start manufacturing the products which were ordered upon their approval. We will not start the production process unless and until the customers have informed and confirmed the overseas legal and compliance requirements have been complied with. For our overseas ODM business, our overseas customers will approve the product designs and specifications including the dimensions and required materials for the products, prior to manufacturing taken place. Our overseas customers will also send personnel to inspect the products in relation to, among others, their compliance with the applicable laws and regulations prior to the delivery. Upon specific requests of our customers, we may be required to comply with specific guidelines with respect to the manufacture of their products to ensure that they are able to comply with the laws and regulations of the jurisdictions into which they import and sell their products. These include regulations with respect to product safety and restricted and hazardous materials laws and regulations and customs, packaging and labeling requirements. With the measures described above, our overseas customers ensure that our products are in compliance with the applicable laws and regulations of the relevant overseas markets. During the Track Record Period and up to the Latest Practicable Date, we had not received nor were we aware of any claims for non-compliance of laws and regulations including but not limited to anti-dumping duties and environmental laws against us.

Our products sold to overseas markets are transported under free-on-board (at PRC ports) arrangements, i.e. we are responsible for arranging the transportation from our warehouse or production facilities to specified ports in the PRC. According to such arrangements, our products' legal title, risks and rewards, among others, pass to our overseas customers at the spot of exporting ports in the PRC when the products pass the rail of ships appointed by our overseas customers.

Our principal international markets cover North America, Europe and the Asia-Pacific (exclusive of the PRC). The governments of those markets may initiate anti-dumping investigations or impose anti-dumping duties against PRC originated products. Under our free-on-board arrangements, we will not be directly responsible for paying any anti-dumping duties or other tariffs. Our management will closely monitor the trends of our overseas markets' trading policies and assess the indirect impact of the imposition of anti-dumping duties (if any). Our sales and marketing department, which is led by Mr. QS Wu, will also study international trade information such as the latest developments in respect of anti-dumping duties, intellectual property rights issues, laws and regulations on imported goods of the countries where our major customers located, etc. whilst our employees will receive training on international trade matters. The staff of our sales and marketing department, including our sales manager possess over 9 years experience in the timber industry. For details of Mr. QS Wu's experience and qualifications, please refer to the section headed "Directors, Senior Management and Staff" of this prospectus. During the Track Record Period, we further reduced the potential impact of implementation of anti-dumping duties by the US government by developing new customers in our PRC and European market, and thereby reducing our reliance on the US market. During the Track Record Period, our revenue contributed by sales to the PRC market and European market increased from approximately 0.03% to 48.5% and 9.1% to 12.9% respectively, while our revenue contributed by sales to the North America market decreased from approximately 62.5% to 33.0% during the same

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period. We were not aware of any anti-dumping investigations or anti-dumping duties imposed against our products during the Track Record Period and up to the Latest Practicable Date. Given the significance of and the contribution made by the OEM and ODM businesses, the introduction of our own-branded products will not represent a material shift in our business model.

Sales in the PRC

Since 2010, we have strengthened our PRC business and have established our “Merry Garden 美丽家园” brand. Our principal PRC customers are located in Fujian Province, Guangdong Province and Shanghai. In the PRC market, the majority of our revenue derived was from our ODM business while we also recorded increasing sales from our products sold under the brand name “Merry Garden 美丽家园”. Our sales to customers are usually conducted on an order basis. We sell our products, including our own-branded products, to (1) trading company customers; (2) end-user customers; (3) distributors and (4) store sales. As one of the key strategies to enhance our PRC sales, we intend to further promote our own-branded products by opening more self-operated stores. On 23 December 2011, we opened our first self-operated store in Zhangping, Fujian Province on our self-owned premises, which has a total gross floor area of approximately 200 sq. m. For the year ended 31 December 2011, the self-operated store generated revenue of approximately RMB0.5 million. Nonetheless, we will maintain the development of our OEM and ODM businesses and there has been no material shift in our business model. Our plan to explore additional revenue sources through establishing more self-operated stores for our own-brand product will be our additional business focus.

We aim to increase our sales of timber villas which, the management believes, will stimulate sales of our indoor and outdoor furniture products. We also aim to maintain a steady performance in our OEM/ODM businesses. The expansion of our production capacity will enable us to produce more timber villas without reducing the production capacity of our other products.

To maintain our performance in our OEM/ODM businesses, we shall continue to strengthen our relationships with our existing OEM customers, provide better services to them, take an active role in developing new markets and explore opportunities to cooperate with large foreign retailers. Similarly, to maintain our competitiveness of our ODM business, we will enhance the capacity of our Group’s design team and strengthen the intellectual property protections owned by our Group.

For the years ended 31 December 2009, 2010 and 2011, our five largest customers accounted for approximately 82.6%, 52.1% and 47.4% of our total revenue, and our largest customer for each year accounted for approximately 27.6%, 22.3% and 15.2% of our total revenue.

As at the Latest Practicable Date, none of our Directors, associates or shareholders holding more than 5% of the issued share capital of our Company and we did not hold any equity interests in any of our five largest customers during the Track Record Period. Save as disclose below, our customers do not have any past or present relationship with our Group, our Shareholders, our Directors, our senior management and any of their respective associates:

| Name of party | Relationship |
|-----------------------|--|
| Xiamen GHS and HK GHS | Li Xueyan, a former director and shareholder of Zhangping Kimura from January 2006 to October 2008, is currently the legal representative of Xiamen GHS and the director and shareholder of HK GHS, respectively |

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| Name of party | Relationship |
|---|---|
| Fujian Meijia Wood Engineering Co., Ltd. (福建美家木屋工程有限公司) ("MJMW") | Mr. Wu Dongping, our non-executive Director, was a controlling shareholder of MJMW at the commencement of the Track Record Period until March 2011 |
| Fujian Meijia Landscape Wood Industry Co., Ltd. (福建美家景观木业有限公司) ("MJJG") | Mr. Wu Dongping was a key management personnel and the legal representative of MJJG at the commencement of the Track Record Period until February 2011 |
| Jiupengxi | Mr. Wu, chairman, chief executive officer and our executive Director, is currently the controlling shareholder, executive director and the legal representative of Jiupengxi. |

The following table shows the breakdown of our sales by geographical areas during the Track Record Period and the four months ended 30 April 2012 (based on our unaudited management accounts):

| | Years ended 31 December | | | Four months ended 30 April | | | | |
|-------------------------------------|-------------------------|---------------------|-----------------------|----------------------------|-----------------------|---------------------|-----------------------|---------------------|
| | 2009 | 2010 | | 2012 | | | | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % | | |
| The PRC | 37 | 0.0 | 75,787 | 38.0 | 148,956 | 48.5 | 84,182 | 56.8 |
| North America | 68,737 | 62.5 | 73,545 | 36.8 | 101,220 | 33.0 | 38,486 | 26.0 |
| Europe | 10,057 | 9.1 | 12,376 | 6.2 | 39,613 | 12.9 | 16,972 | 11.5 |
| Asia Pacific (exclusive of the PRC) | <u>31,202</u> | <u>28.4</u> | <u>37,895</u> | <u>19.0</u> | <u>17,362</u> | <u>5.6</u> | <u>8,425</u> | <u>5.7</u> |
| | <u><u>110,033</u></u> | <u><u>100.0</u></u> | <u><u>199,603</u></u> | <u><u>100.0</u></u> | <u><u>307,151</u></u> | <u><u>100.0</u></u> | <u><u>148,065</u></u> | <u><u>100.0</u></u> |

The following tables set out the geographical breakdown of our revenue by product nature:

| | Year ended 31 December 2009 | | | | |
|-------------------------------------|-----------------------------|----------------------|-----------------|-----------------|-----------------------|
| | OEM | ODM | Merry Garden | Others | Total |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| The PRC | — | 37 | — | — | 37 |
| North America | 54,832 | 13,905 | — | — | 68,737 |
| Europe | 6,818 | 3,239 | — | — | 10,057 |
| Asia Pacific (exclusive of the PRC) | <u>27,769</u> | <u>3,433</u> | <u>—</u> | <u>—</u> | <u>31,202</u> |
| | <u><u>89,419</u></u> | <u><u>20,614</u></u> | <u><u>—</u></u> | <u><u>—</u></u> | <u><u>110,033</u></u> |

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Year ended 31 December 2010

| | OEM | ODM | Merry Garden | Others | Total |
|--|----------------|----------------|-------------------------|----------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| The PRC | — | 48,677 | 21,977 | 5,133 | 75,787 |
| North America | 70,487 | 3,058 | — | — | 73,545 |
| Europe | 10,584 | 1,792 | — | — | 12,376 |
| Asia Pacific (exclusive of the PRC) | <u>27,593</u> | <u>10,302</u> | <u>—</u> | <u>—</u> | <u>37,895</u> |
| | <u>108,664</u> | <u>63,829</u> | <u>21,977</u> | <u>5,133</u> | <u>199,603</u> |

Year ended 31 December 2011

| | OEM | ODM | Merry Garden | Others | Total |
|--|----------------|----------------|-------------------------|----------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| The PRC | — | 82,747 | 57,685 | 8,524 | 148,956 |
| North America | 97,857 | 3,363 | — | — | 101,220 |
| Europe | 39,607 | 6 | — | — | 39,613 |
| Asia Pacific (exclusive of the PRC) | <u>11,117</u> | <u>6,245</u> | <u>—</u> | <u>—</u> | <u>17,362</u> |
| | <u>148,581</u> | <u>92,361</u> | <u>57,685</u> | <u>8,524</u> | <u>307,151</u> |

CUSTOMERS

Trading companies

Our products are sold to trading company customers on an order-by-order basis and are further sold through their distribution channels. We are not involved in any sales and marketing of our products sold to trading company customers nor do we have any policy to monitor sales of our products by these customers through their own sales channels. The majority of our products sold to trading company customers are sold through an OEM and/or an ODM basis which, to the best knowledge of the Directors, are then further sold on to their customers who are mainly supermarkets and retailers overseas. Our “Merry Garden 美丽家园” branded products are sold to trading company customers in the PRC which are then sold on the PRC market.

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As at 31 December 2009, 2010 and 2011, we sold our products to 21, 36 and 31 trading company customers respectively. The table below sets out the proportion of our sales to trading company customers by product nature during the Track Record Period:

| | Years ended 31 December | | |
|-------------------|-------------------------|--------------|--------------|
| | 2009 | 2010 | 2011 |
| | % | % | % |
| OEM | 81.6 | 67.1 | 61.2 |
| ODM | 18.4 | 31.5 | 36.3 |
| Merry Garden 美丽家园 | — | 0.1 | 0.3 |
| Others | <u>0.0</u> | <u>1.3</u> | <u>2.2</u> |
| | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |

For our PRC trading company customers, we grant credit periods of 30 to 90 days. For our international trading company customers, we grant credit periods of 15 to 60 days.

End-user customers

We sell our own-branded products and our ODM products to our end-user customers which are mainly located in the PRC. Our sales to end-user customers are mainly project-based and used at tourist attractions, parks and municipal works projects.

Our end-user customers purchase our products through direct sales from (i) exhibitions and sales conventions; and (ii) via our marketing personnel. We also sold our products to end-user customers through public tenders.

For our end-user customers, we grant credit periods of 90 days.

Distributors

Since 2010 we have established in the PRC, distribution networks in respect of our “Merry Garden 美丽家园” branded products. As of the Latest Practicable Date, we had entered into distribution agreements with all nine distributors to sell our products through their own established retail points of sale in Fujian Province and in Shanghai, the PRC.

In particular, the distribution agreements entered into between us and such distributors include the following principal terms:

- Geographical scope — we authorise the distributors to sell our products within a specified geographic area, but reserve the right of authorising an enterprise in the same district to distribute our products;
- Minimum purchase requirements — the distributors usually undertake a minimum annual purchase requirements based on their capabilities. In the event that our distributors fail

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and/or are unable to meet their annual minimum purchase requirements we will request that they make good the outstanding balance within 90 days. Thereafter, in the event that they still fail and/or are unable to meet their annual minimum purchase requirements we reserve the right to terminate our distribution agreements with them;

- Support and assistance — subject to pre-set levels of credit, we grant credit periods to our distributors as well as marketing support. Such credit amount is required to be settled within the credit periods we granted;
- Advertising and brand building — we provide our distributors with advertising materials for our products to advertise our brand and products;
- Information collection — the distributors undertake that they will, on a timely basis, give feedback to us in respect of sales information and submit a feasible marketing plan for us to capture the latest market trends;
- Exclusive sales arrangements — the distributors undertake that they will not sell similar products in the geographical area that we authorise them to carry out relevant sales activities without our consent;
- Duration — the distribution agreements contain no automatic renewal clause. The term range from two to three years. Either party may terminate the distribution agreement for any material breach by the other side.

Further, under the terms of the distribution agreements, our distributor customers are obliged to avoid infringing our intellectual property rights and keep our commercial information confidential. Save for the above, the distribution agreements do not contain any terms with respect to obsolete stock arrangements or compliance with our pricing policies and sales policies. During the Track Record Period, we do not accepted any return of unsold goods from the distributors and we will adopt similar policy in future. Revenue is recognised upon the delivery of our products to the distributors.

Our Group's products sold to the distributors during the Track Record Period were under our Group's "Merry Garden 美丽家园" brand and the products were sold to their customers through their own established retail points of sale. To avoid our distributor customers from building-up excessive inventory, we will assess the volume of purchase and our customers' credit position every time when our distributor customers place a purchase order. We may reject accepting their purchase orders if : (i) the purchase volume is unreasonably high that it may lead to accumulation of stocks; or (ii) the distribution customer has exceeded its credit limit or fail to repay us after the expiration of the credit period.

Cooperation with these distributors enables us to sell products by leveraging their established local networks, and at the same time, enlarges our base for collecting market information and allows us to obtain more assistance with respect to our brand and products promotion. To the best knowledge of the Directors, the distributorship model is also adopted by some of the industry peers.

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During the Track Record Period, in order to further strengthen our brand awareness and expand our business, we endeavored to increase the number of our distributors. As at 31 December 2009, 2010 and 2011, we sold our products to nil, 4 and 7 distributors respectively. As of the Latest Practicable Date, we had engaged 9 distributors and we had maintained good business relationships with all of our distributors and we have not experienced any termination of any of our distributorship arrangements. Each of our distributors operated one retail point of sale as at the Latest Practicable Date.

For our distributor customers, we grant a credit period of 90 days.

Retail companies

In our international markets, some of our customers are retail company customers. These customers sell our OEM products through their own stores to end-user customers. Our retail company customers include retailers in Japan and Germany who possess retail sales networks such as supermarkets or through on-line internet sales.

As at 31 December 2009, 2010 and 2011, we sold our products to 5, 6 and 6 retail companies respectively.

For our retail company customers, we grant credit periods of 15 to 60 days.

Store Sales

Since December 2011, we established and opened our first self-operated store in Zhangping City, Fujiang Province with a total gross floor area of 200 sq.m. We sell our “Merry Garden 美丽家园” branded products through the first self-operated store on a retail basis. For the year ended 31 December 2011, we derived approximately RMB0.5 million from sales out of our first self-operated store.

The following table sets out our revenue, gross profit and gross profit margin by sales channels during the Track Record Period and up to 30 April 2012 (based on our unaudited management accounts):

| | Years ended 31 December | | | | | | Four months ended 30 April | |
|--------------------|-------------------------|--------------|------------------|--------------|------------------|--------------|----------------------------|--------------|
| | 2009 | | 2010 | | 2011 | | 2012 | |
| | Sales RMB'000 | % | Sales RMB'000 | % | Sales RMB'000 | % | Sales RMB'000 | % |
| Trading companies | 100,968 | 91.8 | 144,286 | 72.3 | 214,459 | 69.8 | 90,468 | 61.1 |
| End-user customers | — | — | 29,275 | 14.7 | 51,205 | 16.7 | 24,872 | 16.8 |
| Distributors | — | — | 12,422 | 6.2 | 25,416 | 8.3 | 26,635 | 18.0 |
| Retail companies | 9,065 | 8.2 | 13,620 | 6.8 | 15,558 | 5.1 | 3,523 | 2.4 |
| Store sales | — | — | — | — | 513 | 0.1 | 2,547 | 1.7 |
| | <u>110,033</u> | <u>100.0</u> | <u>199,603</u> | <u>100.0</u> | <u>307,151</u> | <u>100.0</u> | <u>148,065</u> | <u>100.0</u> |

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| | Years ended 31 December | | | | | | Four months ended 30 April | |
|--------------------|--|------------------------|------------------------|------------------------|------------------------|------------------------|----------------------------|---------------|
| | 2009 | | 2010 | | 2011 | | 2012 | |
| | Gross Gross profit profit margin | Gross profit margin | Gross profit margin | Gross profit margin | Gross profit margin | Gross profit margin | Gross Profit | Profit Margin |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Trading companies | 26,997 | 26.7 | 51,433 | 35.6 | 77,243 | 36.0 | 34,555 | 38.2 |
| End-user customers | — | — | 11,360 | 38.8 | 19,158 | 37.4 | 9,249 | 37.2 |
| Distributors | — | — | 4,222 | 34.0 | 10,076 | 39.6 | 11,166 | 41.9 |
| Retail companies | 2,460 | 27.1 | 4,869 | 35.7 | 5,114 | 32.9 | 1,221 | 34.7 |
| Store sales | — | — | — | — | 313 | 61.0 | 1,422 | 55.8 |
| | <u>29,457</u> | | <u>71,884</u> | | <u>111,904</u> | | <u>57,613</u> | |

SALE STRATEGY FOR OUR PRODUCTS

In addition to our own self-operated stores, our trading company customers and our distributor customers sell our own-branded products in the PRC market. It is unlikely that any direct competition will occur between our stores and our trading company customers primarily because our own-branded products sales to our trading company customers are not material (representing approximately nil, 0.1% and 0.2% of our total turnover and nil, 0.1% and 0.3% of our total sales to trading company customers during Track Record Period respectively). Moreover, in respect of our self-operated stores and distributor stores, we ensure that there is no over-lapping of geographical locations between them.

On the other hand, direct competition between our OEM/ODM products and our products are also unlikely to occur as our own-branded products are primarily timber villas, sheds and their related parts and structures whilst, our OEM/ODM products are primarily leisure household products.

In addition, although we launch an average of 120 new and/or improved products annually, our Directors consider that our business model and our internal control measures prevent our existing products from becoming obsolete with the introduction of new products. In particular, our OEM and ODM products and some of our “Merry Garden 美丽家园” branded products are produced on an order-basis. We launch new products only when receiving customer orders. Also, we normally do not accumulate finished products to cater for future demand of our customers. For the remainder of our “Merry Garden 美丽家园” branded products, we will carefully control the timing of launch of new products taking into consideration, among others, (i) the levels of existing inventory; (ii) similarity between new and existing products; and (iii) target customers for these products such that the existing inventory can be phased out gradually prior to the launch of new products. Due to the above specific circumstances when launching new products as discussed above, we do not generally experience cannibalisation of our new and existing products.

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TRANSPORTATION ARRANGEMENTS OF OUR PRODUCTS

For our domestic sales, our customers are responsible for the transportation of our products from our warehouses or production facilities. For international sales, we are responsible for arranging the transportation from our warehouse or production facilities to specified ports in the PRC. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any transportation bottleneck incidents which had a material impact on our operations.

INTELLECTUAL PROPERTY RIGHTS

We sell self-designed products to our domestic and international customers through ODM arrangements. We collaborate with some trading company customers whereby we sell our products to them through OEM arrangements.

Under our current ODM arrangements, we own the intellectual property rights of our own designs under PRC law. Under our current OEM arrangements, it is our understanding that we do not have any intellectual property rights over the designs provided by our OEM customers.

We have implemented various measures to prevent the designs of our “Merry Garden 美丽家园” branded products from being regarded as plagiarising/infringing any intellectual property rights of our ODM (if applicable) and OEM customers, including:

- adopting employees’ guidelines for the prevention of the intellectual property rights infringing;
- educating our employees on intellectual property rights protection by holding various educational seminars; and
- our management team will supervise and monitor our products to ensure no intellectual property rights of our customers are infringed.

QUALITY CONTROL

As at the Latest Practicable Date, we had 29 staff in our quality control team.

We monitor our product quality at three stages:

- (i) raw material (including outsourced semi-finished products) acceptance checking stage:
 - our procurement team maintains strict controls by requiring our suppliers to provide us with a qualified inspection report on their materials. Such inspection report will cover the quality, specification and quantity verified by relevant quality control staffs, and set out sample checking results. It is our policy to conduct inspections and reviews of the Business Licenses (營業執照) and other licenses and approvals in association with their operation, such as the Timber Harvest Licenses (採伐許可證), Timber Transportation Licenses (木材運輸許可證) certificates of origin and official plant quarantine certificates on an annual basis or upon the renewal of such licenses;

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- our quality control staff check the specifications, quantity against the delivery note from our suppliers. We examine samples from the raw materials and check whether they contain decay, cracks and damage; and
 - we will return to our suppliers raw materials which fail our quality control tests.
- (ii) production process stage
- our quality control staff use mold and examinations tools to check the first finished products against the blueprints or samples;
 - our production staff conduct examinations based on mold and examination tools; and
 - during the production process, our quality control staff conduct regular quality inspections.
- (iii) finished-product testing stage
- our quality control staff use mold and examination tools to check the external appearances, dimensions and packaging against the blueprints or samples; and
 - our quality control staff will inspect our products based on quality standards whilst our overseas customers may also appoint their own inspection officers or a third party testing centers to examine our products.

To ensure that our products comply with the relevant national standards, GB18584-2001 or other requirements specified by our customers, if any, we or our customers will send sample products to third-party testing centers, including those testing centers operated by multi-national groups specialising in product quality inspection to examine whether our products can satisfy the requirements under GB18584-2001 or other requirements specified by our customers, if any.

For each order under our ODM arrangements, our customers will usually communicate with us on their specific needs first. We will then send our draft designs for their review. After obtaining our customer's approval on our design, we will produce a sample product for their further examination. Subject to their further approval, we will arrange for mass production and shipment of the products ordered. In particular, for our overseas ODM business, we have adopted the following measures to ensure that our products are produced in accordance with our overseas customers' requirements, including the size and intended uses of such products:

- our designers will prepare the preliminary designs in accordance with our overseas customers' requirements;

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- all of the preliminary designs should be reviewed and approved by the head of our sales and marketing department, namely Mr. QS Wu. For details of the qualifications of Mr. QS Wu, please refer to the section headed “Directors, Senior Management and Staff” of this prospectus. The staff of our sales and marketing department, including our sales manager who has over 9 years of experiences in the timber industry, will also provide support to Mr. QS Wu; and
- prior to the production of relevant products, we will submit our designs to our overseas customers for their further approval.

For orders under our OEM arrangements, our customer will usually send us their designs. We will then produce a sample product for their examination. Subject to their approval, we will arrange for mass production and shipment of their order. For our OEM business, we have adopted the following measures to ensure that our products are in accordance with our customers’ specifications:

- based on our customers’ specifications, we may undertake to appoint Independent Third Party testing centers to conduct detection and analysis testing for chemicals or hazardous substances (e.g. formaldehyde, lead, etc.) contained in our products to ensure that our products can meet with their requirements; and
- our quality control staff will, based on the specific designs and blueprints provided by our customers, use mold and examination tools to check the appearances, dimensions and size of our products. They will also check whether the materials used for producing the products are in accordance with our customers’ orders.

Upon request by our overseas customers, we take samples from the finished products and submit them to third party inspection institutions for examination on product structure, safety, environmental protection matters (e.g. density of heavy metal and formaldehyde).

Upon the delivery or shipment of finished products, our quality control staff conduct sample examination according to standards e.g. our product sampling standard table MIL-STD-105E (Category II, Acceptance Quality Limit 1.5 or 4.0). Our overseas customers may also engage examination personnel or appoint third party inspection institutions to conduct examinations before confirmation of the said delivery or shipment.

We accept returns of our products from our customers only if there are material quality defects in the products. During the Track Record Period, we did not experience any material quality defects to our products, nor did we experience any product returns or recall incidents.

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AWARDS AND RECOGNITIONS

During the Track Record Period, our Group had been the recipient of a number of awards and recognitions in recognition of the high quality of our products and designs, as well as our expertise in timber treatment/processing, including:

| Year | Honours | Issued by | Nature of award/recognition |
|----------|---|--|--|
| Dec 2007 | ACQ-D Wood Preservative was awarded Fujian Excellent New Products Third Prize (ACQ-D木材防腐劑獲頒福建省優秀新產品三等獎) | People's Government of Fujian Province | Recognition of our research and development capacity. This award also encourages us to invent more hi-tech products with high returns efficiently, and to apply our self-owned intellectual property rights on those products. |
| Sep 2008 | “Merry Garden 美丽家园” was awarded Fujian Top Brand product | Administration for Industry and Commerce of Fujian | Recognition of the outstanding production volume and sales volume of our products in Fujian Province. |
| Sep 2008 | 2008-2009 Provincial Agricultural Industrialisation Key Leading Enterprise (2008-2009年度農業產業化省級重點龍頭企業) | Agricultural Industrialisation Leading Group of Fujian Province | Recognition that we are one of the enterprises that have local history, competitive edge, distinguishing feature and development potential. |
| Nov 2009 | Golden Prize for Agricultural Brand Enterprise of Fujian Province (福建省品牌農業企業金獎) | People's Government of Fujian Province | Recognition of our competitiveness, large investment and operation scale, competent research and development capacity. |
| Oct 2010 | High and New Technology Enterprise (高新技術企業) | Fujian Provincial Department of Science and Technology, Fujian Provincial Department of Finance, Fujian Provincial National Tax Administration, Fujian Provincial Local Tax Administration | Recognition that we are an intelligence and technology intensive company and this award confers us the preferential income tax rate at 15%. |

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| Year | Honours | Issued by | Nature of award/recognition |
|----------|--|--|--|
| Dec 2010 | The First Batch Pilot Enterprises Successfully Applied Technology Standardisation Strategies of Fujian Province (福建省第一批實施技術標準戰略試點合格企業) | Fujian Provincial Bureau of Quality and Technical Supervision, Economic and Trade Committee of Fujian Province | Recognition that we are one of the 134 first batch pilot enterprises in Fujian Province which has implemented enterprise standardisation plan. This award also indicated that we are one of the enterprises in Fujian taking a role in the enterprise standardisation works. |
| Oct 2011 | One of the top 10 wood preservation enterprises of China wood preservation industry in 2011 (2011年中國木材保護工業木材防腐10強企業) | China Wood Preservation Industry Association ^{Note 1} , China Timber and Wood Products Distribution Association Wood Preservation Committee ^{Note 2} | Recognition our brand in the wood anti-corrosive industry. |
| Oct 2011 | Innovative enterprise of China wood preservation industry in 2011 (2011年中國木材保護工業創新型企業) | China Wood Preservation Industry Association | Recognition which encourages us to further develop new products and technologies, improve our management and enhance our ability for sustainable development and increase our competitive strength. |
| Oct 2011 | Thermo-modified wood brand enterprise of China wood preservation industry in 2011 (2011年中國木材保護工業碳化木品牌企業) | China Wood Preservation Industry Association ^{Note 1} , China Timber and Wood Products Distribution Association Wood Preservation Committee ^{Note 2} | Recognition of our outstanding research and development ability in the field of heat-treated thermo-modified wood. This award further enhances our reputation and brand recognition. |
| Oct 2011 | Anti-corrosive wood structure application model enterprise of China wood preservation industry in 2011 (2011年中國木材保護工業防腐木材工程應用示範企業) | China Wood Preservation Industry Association ^{Note 1} , China Timber and Wood Products Distribution Association Wood Preservation Committee ^{Note 2} | Recognition our brand in the anti-corrosive wood structure application industry. |

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| Year | Honours | Issued by | Nature of award/recognition |
|----------|--|--|---|
| Oct 2011 | Wood preservatives brand enterprise of China wood preservation industry in 2011 (2011年中國木材保護工業木材防腐劑品牌企業) | China Wood Preservation Industry Association ^{Note 1} , China Timber and Wood Products Distribution Association Wood Preservation Committee ^{Note 2} | Recognition of our outstanding research and development ability in the field of wood preservatives. This award further enhances our reputation and brand recognition. |

Note 1: China Wood Preservation Industry Association is a national level industry organisation at the China Wood Preservation Industry Association registered with the Minster of Civil Affairs of the PRC and is under the leadership of Minister of Industry and Information Technology of the PRC of the PRC. The China Wood Preservation Industry Association is established for various purposes including conducting statistics of timber preservation industry, liaising with the government on behalf of its members and assisting the governmental authority to make and implement industry standards. We are the vice president of the China Wood Preservation Industry Association.

Note 2: The China Timber and Wood Products Distribution Association is an industrial social organisation at PRC national level. The China Timber and Wood Products Distribution Association is registered with the Minster of Civil Affairs of the PRC and is under the leadership and supervision of the State-owned Assets Supervision and Administration Commission of the State Council. The China Timber and Wood Products Distribution Association is established for various purposes including conducting statistics of timber and timber products industry, liaising with the government on behalf of its members and assisting the governmental authority to make and implement industry standards. The China Timber and Wood Products Distribution Association is operating 10 Committees, among which the Wood Preservation Committee is one of them. We are the vice president of the China Timber and Wood Products Distribution Association.

Save as disclosed, all of the awards were granted by organisations with no past or present relationship with our Group, our Group's shareholders, directors, senior management and any of their respective associates.

We hold memberships of various associations relating to our industry. As at the Latest Practicable Date, we were members of the following industry associations:

| Organisation | Position | Date Joined |
|--|----------------|---------------|
| China Wood Preservation Industry Association (中國木材保護工業協會) | Vice President | October 2011 |
| Subcommittee 4 on Timber Structures of National Technical Committee 41 on Wood of Standardisation Administration of China (SAC/TC41/SC4) (全國木材標準化技術委員會結構用木材分技術委員會) | Member | May 2011 |
| China Timber and Wood Products Distribution Association Wood Preservation Committee (中國木材與木製品流通協會木材防腐專業委員會) | Vice President | December 2010 |

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| Organisation | Position | Date Joined |
|--|--|---------------|
| China National Furniture Association (中國傢具協會) | Governing Unit of China National Furniture Association for the Fifth Governing Unit Meeting | November 2010 |

COMPETITION

Competition in the timber-products market tends to vary across different parts of the world and is highly fragmented. We believe that we have a competitive edge because (i) we maintain long-term business relationships with our OEM/ODM businesses; (ii) our “Merry Garden 美丽家园” brand’s anti-corrosive wood has been accredited as a Fujian Top Brand, (iii) our competent product design capabilities, and (iv) our extensive experience in wood preservation applications technologies; (v) we have been accredited with certifications by various international institutions in our industry; and (vi) we possess an experienced management team.

Throughout our regional markets we compete based on brand name recognition, reputation for product quality, product cost, innovation and technology and product designs.

In the PRC, our main competitors are domestic timber-product enterprises with a relatively small scale and some companies with an international presence. These small-scale companies normally manufacture relatively simple designs and products.

In the North American market, our main competitors are Canadian timber-product companies who possess a geographical and strategic advantage over us. However, we believe that we compete favourably with them on the basis of cost, design, the technology and treatments that we apply to our products.

In the Asia-Pacific (exclusive of the PRC), our main competitors are from south-east Asia. These timber-product companies have the advantage of sourcing raw materials from natural forests at a relatively low cost. However, we believe that we compete favourably with them by way of design and technology. Moreover, our FSC and PEFC accreditations confer upon us access to markets that would be restricted to those south-east Asian competitors.

In Europe, our main competitors are mainly Polish timber-product companies who possess a geographical advantage over us. We believe that we compete favourably with them on the basis of cost, design and the technology and treatments that we apply to our products.

TECHNOLOGICAL APPLICATIONS AND DEVELOPMENTS

Our research and development activities aim at improving our existing wood preservation applications and technologies as well as developing new applications. We conduct our research and development in-house at our research centre which is situated in offices adjacent to our production facilities.

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Our research and development team is led by Mr. Wu. For details of Mr. Wu's qualifications and relevant experience, please refer to the section headed "Directors, Senior Management and Staff" of this prospectus.

As at 31 December 2009, 2010 and 2011 and as at the Latest Practicable Date, we had 38, 38, 38 and 37 employees involved in our research and development activities respectively. Our research and development team performs experimental, technical and examination work, as well as conducting data analysis and facilities management work. 14 of our research and development personnel possess relevant industry experience of no less than 3 years whilst 12 of them possess relevant industry experience of no less than 5 years. With 1 PHD student and 1 postgraduate degree holder, our research and development team comprises 14 personnel who have received tertiary or higher education.

Our in-house research and development team is assisted by three professors. They are experts in the fields of wood preservation and forest chemicals, wood science and technologies, respectively. They work closely with us to conduct research and development activities in the areas of wood science and wood preservation.

During the Track Record Period, we have applied various wood preservation technologies to our products including ACQ-D preservative treated wood, FRW processing, thermo-modified processing and anti-cracking wood technologies. For the years ended 31 December 2009, 2010 and 2011, we incurred research and development expenses of approximately RMB5.7 million, RMB7.3 million and RMB9.8 million respectively. Such expenses are mainly composed of staff costs, the relevant materials cost and the application fees for patents. For the years ended 31 December 2009, 2010 and 2011, we incurred said application fees for patents of approximately RMB nil, RMB0.02 million and RMB0.06 million, respectively. Our research and development expenses are recorded under our cost of sales and administrative expenses in the combined income statements and no research and development expenses have been capitalised during the Track Record Period.

Wood preservation technologies

CCA has been used for more than 70 years and is applied to timber for preservation against fungi, insects and marine borers. In addition, CCA can enhance the weather-resistance of treated timber and prolong its paint adherence. However, CCA has been restricted by some countries for personal health and environmental reasons and its usage has gradually been phased out.

Since 2002, ACQ-D preservatives have been produced and used by us in our products. ACQ-D is a water-based preservative made from copper, a fungicide, a quaternary ammonium compound and insecticide. ACQ-D is used as a replacement to CCA which has been restricted by various governments including the United States for environmental health reasons.

ACQ-D is applied to timber used in our timber villas, sheds and their related parts and structures as well as to our furniture products. The benefit of ACQ-D-treated wood is that it can be safely used for applications where the wood is in direct contact with the soil and/or water, such as permanent wood foundations, deck pilings, and deck boards. ACQ-D is also more environmentally-friendly and contains less hazardous chemical content than other conventional CCA preservatives.

We only apply CCA under limited circumstances upon the specific request of some of our PRC customers and all our products treated with CCA were sold to our customers in the PRC market. Our revenue derived from sales of products treated with CCA represented approximately nil, nil and 0.4%

of our total revenue for the years ended 31 December 2009, 2010 and 2011, respectively. As advised by our PRC Legal Adviser, CCA is permitted to be used in accordance with the relevant national standards such as the GB/T 27654-2011 Standard Wood Preservatives《木材防腐劑》 and the GB/T 27651-2011 Standard Use category and specification for preservative-treated wood《防腐木材的使用分類和要求》. Given the recent industry trend of using ACQ-D as an alternative, we do not expect to continue the use of CCA in future. In this regard, Mr. QS Wu, head of our sales department, is responsible to monitor that no further orders using CCA will be accepted.

Regarding the use of ACQ-D preservatives, we are responsible to ensure that our products are produced in accordance with our customers' specifications and approved and inspected by them. Our overseas customers ensure that our products are in compliance with the applicable laws and regulations of the relevant overseas markets. Currently, ACQ-D preservatives are commonly used in markets such as the U.S. and in Europe. We request our overseas customers to warrant that the ACQ-D specifications set out in their purchase orders are in compliance with the relevant requirements in the jurisdictions where they intend to sell our products. We will also check whether the use of ACQ-D preservatives is prohibited in the relevant jurisdictions. With respect to our customers in PRC, we may apply ACQ-D preservatives to our products when needed. The use of ACQ-D is permissible under the PRC laws and relevant national standards. As advised by our PRC Legal Adviser, our Group's use of such technology is not expected to give rise to significant liability issues in PRC. By reason of the above, our Directors confirm and the Sole Sponsor concurs that the use of ACQ-D will not give rise to any significant liability issues for our Group.

Fire-retardant wood processing

As timber is a combustible material, our fire-retardant wood utilises a fire retardant chemical that can remain stable even under high temperatures. Such treated wood chars that do not oxidise creating a convective layer that transfers flame heat to the wood in a uniform way which acts to significantly slow down the spread of fire.

Thermo-modified wood processing

The heating of timber at controlled temperatures may enhance the insecticidal nature of timber. Moreover, this represents a chemical-free preservative which is preferred by many of our customers.

Treatment can improve timber quality with respect to how it reacts with water. Heat treatment also improves the properties of the wood with respect to less moisture deformation and lower equilibrium moisture.

Anti-cracking technologies

It is intended that these technologies will improve the aesthetic appearance and durability of our products as wood may contract and expand and thus crack or split when subjected to environmental changes in temperature and humidity.

Environment simulation laboratory

Apart from the above technologies, we have set up a laboratory that is capable of simulating different environmental conditions and effects where timber can be tested for various degrees of degradation. The test results from these simulations gives us a better understanding of the environmental effects on timber and the antidotal preservation treatments required to counter their adverse effects.

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We participate in the drafting of national standards or industry standards

We have participated in formulating two PRC forestry industry standards, namely “Wood Preservatives (木材防腐劑)” and “Wood Preservation Utilisation Categories and Requirements (防腐木材的使用分類和要求)”. These standards are currently still in use. We are formulating the national standard — “The Technical Code for Anti-corrosive Wood Structure Applications (防腐木材工程應用技術規範)” and one of our Directors, Mr. Wu Dongping, participated in reviewing or formulating various national standards and industry standards, including:

- Exterior wall cladding for timber structures (木結構建築牆面用掛板)
- Timber I Beams for Construction Structures (建築結構用木工字樑)
- Steel nails used in timber structures (木結構用鋼釘)
- Visual grading rules for standard materials used in light timber structures (輕型木結構用規格材目測分級規則)
- Mechanics Properties Assessment for Composite Timber Products (結構用木質複合木材產品力學性能評定)
- Testing Methods for Mechanics Properties of Structural Sawn Timbers (結構用鋸材力學性能測試方法)

Intellectual Property

As at the Latest Practicable Date, we (i) owned the following registered trademarks in the PRC: , 木村, 瑞木祥村; (ii) registered trademark  in Hong Kong; and (iii) the registered trademark  in Germany. Please refer to the sub-paragraph headed “Intellectual Properties Rights of Our Group” under the paragraph headed “B. Further information about our business” in Appendix VI to this prospectus for the validity period of the major trademarks owned by our Group as at the Latest Practicable Date. As at the Latest Practicable Date, we have been using the “Merry Garden 美丽家园” trademark for operating our business.

As at the Latest Practicable Date, we (i) owned 43 patents and (ii) have applied for registration of 36 patents. Please refer to the paragraph headed “Intellectual Properties Rights of Our Group” in Appendix VI to this prospectus for the validity period of the patents owned by our Group as at the Latest Practicable Date.

As at the Latest Practicable Date, we were the registrants of the domain names of www.kimura.cn, www.acq-d.com, www.merrygarden.net and www.merrygardenholdings.com, respectively.

Our Directors confirm that as far as they are aware, there has been no infringement upon any intellectual property rights by our Group nor disputes regarding any intellectual property rights between our Group and any third party during the Track Record Period nor has our Group encountered any infringement upon its intellectual property rights by any third party during the Track Record Period.

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Inventory Control

We make appropriate plans for procurement in accordance with our sales forecasts. Our raw material inventories usually meet our production requirements for a period of two to three months. We increase our raw material inventories to meet the anticipated increase in demand prior to significant public holidays.

Our major raw material is timber which possesses a long life span. We procure raw materials based on our production plans and keep raw materials for production for the coming two to three months, rather than procuring raw materials upon receipt of sales order. Furthermore, we have adopted measures to manage fluctuations in the timber price. Firstly, we use prepayments to fix the price with our suppliers at an earlier stage. Secondly, we adjust the price upwards with customers if we envisage rising trend in the price of raw materials.

To reduce the risk of inventory obsolescence, we will make reference to our historical performance and our current year sales plans when preparing our procurement plans and determining the raw materials required for the current year. We have also taken the following measures to reduce the risk of inventory obsolescence: (i) conduct quality and quantity checks on the materials before acceptance for storage; (ii) timely adjustments to our procurement plans in case of any changes in the market conditions which affects our sales plan; and (iii) monitor our inventory records through regular reviews and physical inspections. Our procurement department and sales and marketing department will conduct monthly reviews of the inventory levels to ensure sufficiency of supply for production in the coming two to three months and evaluate if any adjustments are needed for our procurement plans before we enter into any sales contracts with our customers. Our finance department performs monthly reconciliations with the warehousing department to ensure the accuracy and consistency among the two records.

We also perform quarterly physical sample inspections and yearly physical full inspections of our inventories. During the full physical inventory inspections, our staff will observe the physical condition of the inventory. Damaged or rotten inventory items will be considered obsolescent and relevant inventory provisions will be considered.

The lifespan of our products is mainly dependent upon the preservation treatments applied and the environmental conditions under which our products are used. Our products, which have undergone ACQ-D treatment, can be used for not less than 20 years under normal environmental conditions. Normally it takes around 30 to 45 days to produce leisure household products and 30 to 60 days to produce timber villas, sheds and their related parts and structures. For the years ended 31 December 2009, 2010 and 2011, our average inventory turnover days were 128, 139 and 97 respectively. In 2010, we increased our raw materials procurement to satisfy the enlarged production plans for our strategy to enter into the PRC market. Such increase in raw materials procurement resulted in an increase in average inventory turnover days during the same period. In 2011, our inventory turnover days decreased due to the implementation of our inventory control policy to reduce inventories levels and our prepayments to the suppliers to secure their steady supply of raw materials in terms of both quantity and price. Our average inventory turnover days have been reduced and was in line with the industry norm for the year ended 31 December 2011.

Credit Control

Our credit periods differ according to customer type. For international customers, we grant credit terms of 15 to 60 days and generally request settlement by letter of credit issued by financial

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institutions or by wire transfer for certain customers with a good trading history. For our domestic PRC customers other than distributors, we grant credit periods of 30 to 90 days. In respect of our distributors, we grant credit periods of 90 days. For our retail company customers in our international markets, we grant credit periods of 15 to 60 days. For new customers, we usually engage credit institutions to investigate their credit status, and require them to make a portion of advance payments.

The exact credit period offered is determined based on the length of business relationship, credit history, size of purchase orders and sales performance history as assessed by us on a case-by-case basis.

Customers who owe outstanding balances for a period of over one year from due date are not granted credit again until such time that their outstanding balances are settled.

INSURANCE

We maintain insurance in respect of potential damage to our facilities, machinery equipment and vehicles. The insurance in respect of our facilities and machinery equipment covers various risks including property insurance, machinery insurance and vehicle insurance. We believe that our current insurance coverage is standard with respect to the type and scope of coverage for companies of comparable size in the timber-products industry in the PRC.

In order to mitigate the risks of fire accidents, we have adopted the following measures:-

1. prohibiting cigarette smoking inside vehicles situated on our production facilities;
2. holding at least one fire drill per annum;
3. establishing fire safety contingency plans, such as: forming an emergency rescue team, setting up search and rescue operation procedures and emergency evacuation procedures;
4. equipping fire alarms, surveillance facilities, fire hydrants, fire extinguishers and water pumps;
5. keeping all fire exits and passages free from obstructions;
6. inspecting fire safety facilities at least once a month; and
7. keeping the premises under surveillance 24 hours each day.

We do not carry any insurance to cover product liability. To control our product liability risks, we place significant emphasis on quality control. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had not experienced any serious or material industrial accidents at our production facilities.

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EMPLOYEES

As at the Latest Practicable Date, we had 625 employees.

The following table sets forth the breakdown of our employee by department and function:

| | As at Latest Practicable Date |
|-------------------------------------|--|
| Management, Finance, Administration | 73 |
| Sales & Marketing | 19 |
| Design | 20 |
| Research & Development | 37 |
| Procurement | 13 |
| Production | 401 |
| Quality Control | <u>29</u> |
| Total | <u><u>592</u></u> |

All of our employees are based in the PRC.

SOCIAL WELFARE SCHEME

As required by PRC regulations, we participate in social insurance schemes operated by relevant local government authorities. We also maintain mandatory pension contribution plans, medical and work-related insurances for our workers in the PRC. Our PRC Legal Adviser has confirmed that save as disclosed in the paragraph headed “Legal Proceedings and Compliance” in this section, we have complied with applicable labour laws and social welfare laws and regulations in the PRC in all material respects, and we were not in breach of such laws and regulations, and have made relevant contributions in accordance with such laws and regulations during the Track Record Period.

COSTS FOR ENVIRONMENTAL COMPLIANCE

Our annual costs for compliance with environmental laws and regulations (including the depreciation costs of related machines and devices) during the Track Record Period amounted to approximately RMB10,000, RMB24,000 and RMB41,000 respectively. We intend to spend approximately RMB700,000 per annum in the coming 3 years to acquire/upgrade machines and devices for compliance with environmental laws and regulations.

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PROPERTY

As at the Latest Practicable Date, we held the following land use rights:

| Abbreviation | Land Use Right Certificate | Location | Gross Floor Area (square metres) | Use of land | Expiry Date |
|--------------|--------------------------------------|---|----------------------------------|-------------|---------------------|
| Land-1 | Zhangguoyong (2002) Zi No. 101034 | Fushan Industrial Park, Jingcheng Street, Zhangping City, Fujian | 10,180.60 | Factory | 28 February 2047 |
| Land-2 | Zhangguoyong (2006) Zi No. 0070 | Waihuan Road East, Jingcheng Street, Zhangping City, Fujian | 1,315.00 | Industrial | 8 March 2056 |
| Land-3 | Zhangguoyong (2011) Zi No. 2337 | Fushan Industrial Park, Jingcheng Street, Zhangping City, Fujian | 1,556.00 | Industrial | 9 August 2061 |
| Land-4 | Zhangguoyong (2011) Zi No. 2338 | Fushan Industrial Park, Jingcheng Street, Zhangping City | 342.00 | Industrial | 8 September 2061 |
| Land-5 | Zhangguoyong (2006) Zi No.0071 | Waihuan Road East, Jingcheng Street, Zhangping City, Fujian | 980.00 | Industrial | 8 March 2056 |
| Land-6 | Zhangguoyong (2006) Zi No.0072 | Waihuan Road East, Jingcheng Street, Zhangping City, Fujian | 3,000.00 | Industrial | 8 March 2056 |
| Land-7 | Zhangguoyong (2007) Zi No.1717 | Fushan Industrial Park, Jingcheng Street, Zhangping City, Fujian | 13,040.00 | Industrial | 19 June 2057 |
| Land-8 | Zhangguoyong (2008) Zi No.0297 | Fushan Industrial Park, Zhangping City, Fujian | 20,863.30 | Industrial | 8 July 2057 |
| Land-9 | Zhangguoyong (2011) Zi No.0103 | Heping Town and Hechun Town, Heping County, Zhangping City, Fujian | 90,049.00 | Industrial | 26 January 2061 |
| Land-10 | Zhangguoyong (2011) Zi No.0102 | Chunwei Town, Heping County, Zhangping City, Fujian | 18,349.00 | Industrial | 26 January 2061 |

As at the Latest Practicable Date, we owned various buildings with a total gross floor area of approximately 57,285.59 sq. m..

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Zhangping Kimura has started the construction of a manufacturing complex on land situated in Zone C, Heping Town and Hechun Town, Heping County, Zhangping City, Fujian Province. Zone C has an area of approximately 90,049 sq. m. (“Land A”) after obtaining the Planning Permit for Construction Works and Construction Works Commencement Permits issued by the Town Planning and Construction Bureau of Zhangping dated 15 December 2006 and 18 July 2007 respectively. Dwelling and leveling costs of approximately RMB8.0 million have been incurred on Land A as at both 31 December 2009 and 2010 which amounts are included as non-current prepayments for acquisition of property, plant and equipment in the combined balance sheets.

Construction in progress with carrying amount of RMB0.9 million and RMB4.4 million as at 31 December 2009 and 2010, respectively and buildings with net book value of RMB18.5 million and RMB18.1 million as at 31 December 2009 and 2010, respectively were situated on Land A. In March 2011, Zhangping Kimura obtained the land use right certificate Land A.

As to Land A, our Group has obtained the Construction Works Commencement Permit on 18 July 2007 for the properties erected on the land and the State-owned Land Use Right Certificate on 20 March 2011. According to our PRC Legal Adviser, no construction work should be commenced until we have obtained the Construction Works Commencement Permit. According to the confirmation letter issued by the Town Planning and Construction Bureau of Zhangping and the “Application Report for Confirmation of Relevant Issues for the Use of Land by Enterprise” which was submitted by Zhangping Kimura and confirmed with official seal by the Land and Resources Bureau of Zhangping (the “Land Bureau of Zhangping”) and Fujian Zhangping Industrial Park Administrative Committee (the “Industrial Park Administrative Committee”), as the Zhangping Industrial Park was in the process of upgrading from a municipal industrial park to a provincial industrial park, the application made by Zhangping Kimura for use of land within the industrial park had to be firstly filed with the Industrial Park Administrative Committee, which would subsequently make a submission to the Land and Resources Bureau together with other applications for approval. After receiving certain numbers of applications submitted by the Industrial Park Administrative Committee, the Land and Resources Bureau would then report to the Provincial Government for examination and issuance of the State-owned Land Use Right Certificate. Such application procedure is usually time consuming and thus it took our Group quite some time to go through it. However, the application for the Construction Works Commencement Permit and other permits (such as the Construction Land Use Planning Permit and the Planning Permit for Construction Works) submitted by Zhangping Kimura were only subject to the direct examination by and approval of the Town Planning and Construction Bureau of Zhangping, the processing time of which was shorter than that in relation to the State-owned Land Use Right Certificate. Therefore, the issuance date of the State-owned Land Use Right Certificate for the land in question was later than the issuance date of the Construction Land Use Planning Permit, the Planning Permit for Construction Works and the Construction Work Commencement Permit, and the legality and validity of the State-owned Land Use Right Certificate and the House Ownership Certificate held by Zhangping Kimura will not be affected.

Our PRC Legal Adviser is of the view that despite the irregularity aforesaid, given that (i) our Group did not start construction operation before obtaining the Construction Works Commencement Permit; (ii) the obtainment of the Construction Works Commencement Permit prior to the state-owned land use right certificate was caused by the government procedure; and (iii) our Group has got assent and approval from the relevant governments for its attainment of the construction works commencement permit prior to the state-owned land use right certificate, the legality and validity of the state-owned land use right certificate will not be affected.

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In view of the aforesaid and the PRC legal opinion obtained from our PRC Legal Adviser, our Directors consider that the late attainment of the State-owned land use right certificate should have no significant adverse impact to our Group's operations.

Further, as there is no administrative penalty provided in any laws for the land user who has obtained the construction works commencement permit prior to the state-owned land use right certificate due to the actual practice of the relevant government, our Group shall not be punished by relevant government or bear legal responsibility for aforesaid incident.

For further expansion of our production plants and facilities, we intend to acquire an additional piece of land in Zhangping City, Fujian Province. We have identified a piece of land of approximately 57,000 sq.m. (i.e. Land B).

In January 2010, Zhangping Kimura entered into an agreement ("the Agreement") with the developer of Fushan Industrial Zone that is authorised by the relevant land authorities ("the Developer"). Pursuant to the Agreement, the Developer granted Zhangping Kimura the right to commence dwelling and leveling activities on Land B.

We have incurred dwelling and leveling costs on Land B of approximately RMB8.8 million as at 31 December 2011 which amount is included as non-current prepayments for acquisition of property, plant and equipment in the combined balance sheets. Pursuant to the Agreement, we do not have any priority in the bidding process of Land B, but it has stated that our dwelling and leveling costs would be repaid in full by the Developer to us in case we fail to obtain the land use right. In order to express our Group's interest on the acquisition of Land B and taking into account (i) the repayment clause under the Agreement, according to which the Developer undertakes to reimburse us for the dwelling and leveling costs in the event we fail to obtain the relevant land use right in public auction, (ii) Land B is adjacent to our production facility, and (iii) we need extra land for our expansion plan, our Group agreed to commence dwelling and leveling activities on Land B. As at the Latest Practicable Date, the land auction procedure had not been commenced by the relevant land authorities.

According to our PRC Legal Adviser, we should follow the open bidding procedures, conclude the contract for assignment of the right to use state-owned land with the relevant authorities and procure the State-owned Land Use Right Certificate after a successful bid if we proceed to obtain the said land use right. In view of the Agreement (in particular, the repayment clause) and the PRC legal opinion, our Directors consider that failure in land auction procedure should have no significant adverse impact to our Group's operations.

We currently do not own the relevant land title of Land B. No construction works has been commenced nor any building has been erected on Land B. As advised by our PRC Legal Adviser, it is not a violation of PRC rules and regulations for us to commence dwelling and leveling before obtaining the land use right certificate.

Our PRC Legal Adviser has confirmed that save as disclosed in the subsection "Legal Proceedings and Compliance", we have obtained all necessary permits, certificates and approvals for use of all of the above mentioned lands and buildings.

BUSINESS

Legal Proceedings and Compliance

| NO. Non-compliance incidents | Reason | Laws and Regulations concerning the punishment/penalty | Corrective actions and impact on our Group |
|---|---|---|--|
| 1. We did not fully comply with the security and housing provident fund contribution requirement for our employees during the Track Record Period and up to the Latest Practicable Date | Some employees had no intention to participate in the social security and housing provident fund schemes as they either do not want to bear certain part of the social insurance premium and housing provident fund contribution or have made contribution to the rural social insurance which are maintained elsewhere according to their rural accounts (according to our PRC Legal Adviser, they could not participate in the social insurance for employees until they voluntarily cancel their rural social insurance account since one person only can set up one account for social insurance) | <p>Prior to the implementation of the Social Insurance Law of the People's Republic of China which came into force on 1 July 2011, under the PRC laws a fine ranging from RMB1,000 to RMB5,000, or a fine ranging from RMB5,000 to RMB10,000 in case of severe breach, might be imposed on the management and the persons with direct responsibilities of our Group for the non-compliances occurred before 1 July 2011.</p> <p>The social insurance authority is also entitled to order us to pay the outstanding social insurance within a time limit or immediately. In addition, the social insurance authority is entitled to impose on us a surcharge at the rate of 0.05% for each day as well as a fine ranging from one to three times of the outstanding amount for work-related injury insurance; and the surcharge for the other four types of social insurance (i.e. the endowment insurance, the unemployment insurance, the medical insurance and the maternity insurance) might be imposed at the rate of 0.2% for each day if our Group fails to rectify the breach of social insurance contribution.</p> <p>According to the PRC Social Insurance Law, for the delay and short payment after 1 July 2011 the social insurance authority is entitled to order enterprises to pay the outstanding social insurance within a prescribed time limit and impose a late charge of 0.05% for each day and a fine ranging from one to three times of the outstanding social insurance. The maximum potential penalty of the above fines and surcharges for the three years ended 31 December 2011 respectively was approximately RMB2.1million, RMB5.4 million and RMB9.9 million.</p> <p>In respect of housing fund contribution, under the relevant laws and regulations of the PRC, the relevant housing fund authority is entitled to order enterprises to register the aforementioned employees with the housing fund authority within a prescribed time limit. If we fail to do so within such prescribed time limit, a fine in the range of RMB10,000 to RMB50,000 might be imposed on us.</p> | <p>Those employees who are not willing to pay social insurance and housing provident fund have provided our Group with their executed undertaking letters, wherein they undertook to bear all the consequences for the non-contribution of social insurance and housing provident fund.</p> <p>Our PRC Legal Adviser has consulted with Zhangping City Labour and Social Safeguard Bureau and Zhangping Management Department of the Longyan City Housing Provident Fund Management Centre which are the competent authorities to deal with the relevant non-compliance incidents. According to the results of the consultation, normally the authorities will not require nor accept the enterprise to pay the outstanding social insurance or housing fund and they normally will not impose penalty on the enterprise, we are advised by our PRC Legal Adviser that the possibility of our Group being imposed of a fine by Zhangping City Labour and Social Safeguard Bureau and Zhangping Management Department of the Longyan City Housing Provident Fund Management Centre is remote and no relevant provision has been made in the combined financial information of our Group.</p> <p>As advised by our PRC Legal Adviser, our Group has complied with the said rule as at the Latest Practicable Date.</p> <p>In order to ensure timely contribution to social security fund and housing provident fund in the future, our finance department will (i) compare the number of employees contributing to the fund with the records from the HR department prior to each contribution; and (ii) withhold the employees' contribution amount from their salary and contributed to the relevant funds directly.</p> |

BUSINESS

| NO. Non-compliance incidents | Reason | Laws and Regulations concerning the punishment/penalty | Corrective actions and impact on our Group |
|---|--|---|--|
| 2. We have commenced production and discharge pollutant before we apply for the Acceptance Opinion (驗收意見) and the Permit to Discharge Pollutant | Our production plants are situated on Fushan Industrial Zone where the facilities for discharging pollutant are not sufficient. As such, our Group built our own facilities for discharging pollutant. The construction delayed the approval procedure of our Acceptance Opinion and the Permit to Discharge Pollutant | <p>Clause 28 of the Administrative Regulation of Environmental Protection for Building Projects and Paragraph 2 of Clause 2 and Clause 47 of the Environmental Protection Regulation of Fujian Province</p> <p>As a result of the breach of the Administrative Regulation of Environmental Protection for Building Projects we might be subject to the order imposed by the relevant environmental protection authority to cease production or stop using the production plants, as well as a fine of not more than RMB100,000 for not obtaining the Acceptance Option.</p> <p>As a result of the breach of the Environmental Protection Regulation of Fujian Province, the environmental protection authority might also impose a fine of not more than RMB50,000 on us for not obtaining the Permit to Discharge Pollutant in time.</p> | <p>We have conducted rectification for the non-compliance of environmental protection issues and the Environmental Protection Bureau of Zhangping did not impose any penalty to our Group when we applied for the completion inspection and the Permit to Discharge Pollutant.</p> <p>Further, we have also obtained the Acceptance Opinion and the Permit to Discharge Pollutant on 20 January 2012 and 27 February 2012 respectively.</p> <p>Having considered the aforesaid, our PRC Legal Adviser is of the view that the possibility of our Group being ordered to cease production or stop using the production plants, or being imposed of a fine by the Environmental Protection Bureau of Zhangping is remote.</p> <p>In order to ensure compliance with relevant environmental laws and regulations, our management will consult with a PRC Legal Adviser to understand the relevant legal requirement before commencing production.</p> |

BUSINESS

| NO. Non- compliance incidents | Reason | Laws and Regulations concerning the punishment/penalty | Corrective actions and impact on our Group |
|--|--|---|--|
| 3. We failed to complete registered capital contribution within the time frame | The need for the capital was not urgent at that time | Administrative Punishment Laws of the PRC | <p>No significant impact on the management or financial position of our Group</p> <p>The delayed capital contribution was fully paid up on 31 December 1996</p> <p>As advised by our PRC Legal Adviser, under the “Administrative Punishment Laws of the PRC”, if an illegal act is not discovered within two years, no administrative punishment shall be imposed. Such two-year term may commence from the date of the occurrence of the illegal act or the date of the termination of the act if the illegal act is in a continual or continuous state. Given that the late capital contribution by Zhangping Kimura has terminated on 31 December 1996, the approving competent authority and/or the administration for industry and commerce should not have any legal basis to impose any administrative punishment on Zhangping Kimura and/or its then shareholders in respect of such late capital contribution after 31 December 1998.</p> <p>In order to prevent recurrence of not completing capital contribution of our subsidiary within the stipulated timeframe, we will engage and seek advice from a PRC Legal Adviser to handle the registered capital contribution procedure, if any.</p> |

BUSINESS

| NO. Non- compliance incidents | Reason | Laws and Regulations concerning the punishment/penalty | Corrective actions and impact on our Group |
|-------------------------------|---|---|--|
| 4. | Our Group has not obtained the “Construction Land Use Planning Permit”, the “Planning Permit for Construction Works” and /or the “Construction Work Commencement Permit” for certain plants constructed on part of our land | Plants were constructed more than 10 years ago and we was not informed that we need to procure relevant construction certificate at that time | <p>“Urban and Rural Planning Law”, “Construction Law”</p> <p>The maximum potential penalty is approximately RMB 0.5 million</p> <p>All the buildings have been granted the “House Ownership Certificate” and our Company has obtained the confirmation letters from the Land and Resources Bureau of Zhangping and the Town Planning and Construction Bureau of Zhangping which confirmed that the Land and Resources Bureau of Zhangping and the Town Planning and Construction Bureau of Zhangping will not: (1) impose any administrative punishment (including but not limited to fine) on Zhangping Kimura; (2) withdraw the lands without compensation; (3) require Zhangping Kimura to supplement the previous construction certificates.</p> <p>Based on the above-mentioned confirmation letters and the fact that Zhangping Kimura has never been imposed of administrative penalties by the Land and Resources Bureau of Zhangping and the Town Planning and Construction Bureau of Zhangping, our PRC Legal Adviser is of view that the possibility of the relevant approval documents being withdrawn and our Group being ordered to cease production or stop using the production plants or being imposed of a fine by the Land and Resources Bureau of Zhangping and the Town Planning and Construction Bureau of Zhangping is remote.</p> <p>Our PRC Legal Adviser is of the view that the Land and Resources Bureau of Zhangping and the Town Planning and Construction Bureau of Zhangping are the competent authorities to issue the confirmation letters.</p> <p>In order to ensure compliance with relevant construction laws and regulations. We will arrange a PRC Legal Adviser provide training to the responsible staffs to ensure they have the requisite professional knowledge and experience to comply with relevant laws and regulations. When it involves in signing of contracts/agreements, we will engage and seek consultation from a PRC Legal Adviser to peruse the contract terms and assess the risk (if any).</p> |

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Internal Controls

Since we have not obtained the relevant construction certificates for those buildings mentioned in the paragraph “Legal Proceedings and Compliance - Our Group has not obtained the “Construction Land Use Planning Permit”, the “Planning Permit for Construction Works” and/or the “Construction Work Commencement Permit” for certain plants constructed on part of our land” in this Section (the “non-compliance buildings”), we have applied for an appraisal to evaluate whether the non-compliance buildings are safe for use. According to the Appraisal Report for the Safety of Buildings (房屋安全鑒定報告) issued by the Town Planning and Construction Bureau of Zhangping dated 9 March 2012, most of those non-compliance buildings were safe for use and can be used under normal conditions. Some of the non-compliance buildings should be maintained or the structures of which were required to be strengthened due to long term use and influence of natural disasters. For those buildings, we have taken maintenance or strengthening measures necessary to ensure that they are safe for use. Amongst all the non-compliance buildings, one entrance guard room of the buildings was appraised as unsafe for use. As a result of such appraisal, the entrance guard room had already been demolished and we have arranged the relevant staff to work in other buildings in our production facilities. In order to ensure the future safety of our buildings, we will duly maintain the safety of the buildings and apply for relevant safety appraisal upon a regularly basis. Our PRC Legal Adviser is of the view that, based on the public information available on the official website of People’s Government of Zhangping, the appraisal for the safety of buildings falls within the jurisdiction of the Town Planning and Construction Bureau of Zhangping. Our PRC Legal Adviser is of the view that the Town Planning and Construction Bureau of Zhangping is the competent authority to issue such Appraisal Report for the Safety of Buildings.

The Indemnifiers have undertaken to indemnify our Company (for itself and as the trustee of our subsidiaries) against any and all expenditures, payments, sum of monies, outgoings, expenses, demands, claims, damages, losses, costs (including but not limited to legal and other professional fees), charges, debts, fines, penalties and taxes that may be directly or indirectly incurred, sustained or accrued by any member of our Group for violation, breach, failure or delay to comply with the relevant PRC laws and regulations as a result of any non-compliance incidents which have been referred. To further enhance our corporate governance and to avoid non-compliance incidents in future, we have adopted the following measures:

- (i) our Group has appointed Mr. Chen Tianfu as chief financial officer of our Group and Miss Wong On Lai as our financial controller to oversee and monitor the internal control environment of our Group; Mr. Chen and Miss Wong, both possess accounting and financial management expertise, with the support of our PRC Legal Adviser to be engaged by us, will be responsible for ensuring our compliance with the applicable laws and regulations as well as reporting to our audit committee regularly every six months;
- (ii) an audit committee established by our Group, comprising three independent non-executive Directors, will assume the overall responsibility for reviewing the adequacy and integrity of our internal control and risk management system;
- (iii) we will retain our PRC Legal Adviser on a continuing basis after listing to provide legal services to our Group in relation to future compliance with PRC laws and regulations;
- (iv) we have arranged for our Directors and senior management to attend training programs on applicable laws and regulations, including the Listing Rules, provided by our legal advisers prior

BUSINESS

to Listing. We will continue to arrange various training programs to be provided by our PRC Legal Adviser engaged by us and/or any appropriate accredited institution to update our Directors, senior management and relevant employees on the relevant laws and regulations regularly every six months;and

- (v) our Group has improved the existing internal control framework by adopting a set of internal control manuals and policies, including the corporate governance manual, which covers corporate governance, risk management, operations, legal matters, finance and audit.
- (vi) our procurement team led by Ms. Xie, our executive Director, procures our Group's suppliers in a systematic flow as follows:
- checking the supplier and assessing their company information, equipment condition, manpower and processing licence;
 - reviewing the supplier and building a list of qualified suppliers;
 - annually rating the suppliers;
 - negotiating with suppliers and entering into sale and purchase contracts to ascertain the term, quantity, unit price, payment method, credit periods and delivery;
 - tracking the delivery and examination of the raw materials; and
 - maintaining at least two suppliers for each type of raw material.

Based on the above, our Directors are of the view that our Company has taken all reasonable steps to establish a proper internal control system to prevent future non-compliance with PRC laws and regulations by our Group.

As of the Latest Practicable Date, our Group had not been involved in any litigations, arbitrations or claims of material importance; and no litigations, arbitrations or claims of material importance are known by the Directors to be pending or threatened by or against our Group, which would have a material adverse impact on the operating results or financial position of our Group.

Our PRC Legal Adviser has confirmed that our Group has obtained all necessary permits and licenses for its business operations, its operations comply with the relevant rules and regulations of the relevant authorities of the regions where our Group operates and all such licences and permits are in full force and effect.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND DIRECTORS

Immediately following completion of the Capitalisation Issue and the Global Offering (taking no account of Shares which may be issued pursuant to the exercise of the Over-allotment Option), Green Seas, which is wholly-owned by Mr. Wu, will be interested in 45.07% of the issued share capital of our Company. Hence, Mr. Wu and Green Seas will be our Controlling Shareholders within the meaning of the Listing Rules. Green Seas was incorporated in the BVI on 5 January 2012 and is an investment holding company, whose only asset is its interest in our Company.

COMPETING INTERESTS

As confirmed by our Directors, our Controlling Shareholders and their respective associates do not have any interests in any business, apart from the business operated by members of our Group, that competes or is likely to compete, directly or indirectly, with the business of our Group.

DEED OF NON-COMPETITION

To better safeguard our Group from any potential competition, each of the Covenantors has entered into a deed of non-competition with our Company whereby each of the Covenantors jointly and severally, irrevocably and unconditionally, undertakes with our Company that with effect from the Listing Date and for as long as the Shares remain listed on the Stock Exchange and the Covenantors, individually or collectively with their associates, are, directly or indirectly, interested in not less than 30% of the Shares in issue, or are otherwise regarded as Controlling Shareholders, each of the Covenantors shall, and shall procure that their respective associates shall:

- (a) not directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of our Group or any business activities which our Group may undertake in the future save for the holding of not more than 5% shareholding interests (individually or any of the Covenantors with their associates collectively) in any company listed on the Stock Exchange or any other stock exchange;
- (b) not take any direct or indirect action which constitutes an interference with or a disruption to the business activities of our Group including, but not limited to, solicitation of customers, suppliers and staff of our Group; and
- (c) keep our Board informed of any matter of potential conflicts of interests between the Covenantors (including their associates) and our Group, in particular, a transaction between any of the Covenantors (including his/her/it associates) and our Group.

In addition, each of the Covenantors hereby jointly and severally, irrevocably and unconditionally, undertakes that if any new business opportunity relating to any products and/or services of our Group (the “**Business Opportunity**”) is made available to any of the Covenantors or their respective associates (other than members of our Group), he/she/it will direct or procure the relevant associate to direct such Business Opportunity to our Group with such required information to enable our Group to evaluate the merits of the Business Opportunity. If a Business Opportunity is turned down by our Company under the deed of non-competition, all such rejections and their basis will be included in our Company’s annual and interim reports.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND DIRECTORS

The relevant Covenantor shall provide or procure the relevant associate to provide all such reasonable assistance to enable our Group to secure the Business Opportunity. None of the Covenantors and their respective associates (other than members of our Group) will pursue the Business Opportunity until our Company decides not to pursue the Business Opportunity because of commercial reasons. Any decision of our Company will have to be approved by the independent non-executive Directors (with those independent non-executive Directors who are interested in such Business Opportunity and their associates abstained from voting) taking into consideration the prevailing business and financial resources of our Group, the financial resources required for the Business Opportunity and any expert opinion on the commercial viability of the Business Opportunity.

Each of the Covenantors further jointly and severally, irrevocably and unconditionally, undertakes that he/she/it will (i) provide to our Group all information necessary for the enforcement of the undertakings contained in the deed of non-competition; and (ii) confirm to our Company on an annual basis as to whether he/she/it has complied with such undertakings.

The deed of non-competition will cease to have any effect on the earliest of the date on which:

- (a) our Company becomes wholly-owned by the Covenantors and/or their associates;
- (b) the aggregate beneficial shareholding (whether direct or indirect) of the Covenantors and/or their associates in the Shares falls below 30% of the number of Shares in issue or the relevant Covenantor (together with other Covenantors and their associates) shall cease to be our Controlling Shareholder (as defined in the Listing Rules); or
- (c) the Shares cease to be listed on the Stock Exchange.

CORPORATE GOVERNANCE MEASURES

We will adopt the following measures to manage the conflict of interests arising from competing business and to safeguard the interests of our Shareholders:

- (a) our independent non-executive Directors will review on an annual basis the compliance with the non-competition undertaking by the Covenantors under the deed of non-competition;
- (b) the Covenantors undertake to provide to us all information necessary for the annual review by our independent non-executive Directors and the enforcement of the deed of non-competition;
- (c) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the non-competition undertaking of the Covenantors under the deed of non-competition in our annual report; and
- (d) the Covenantors will make an annual statement on compliance with their undertaking under the deed of non-competition in our annual report.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND DIRECTORS

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Having taken account of the following factors, our Directors are satisfied that we can carry on our business independently of our Controlling Shareholders following the Listing:

Management independence

Our management and operational decisions are made by the Board and a team of senior management. The Board consists of seven members, comprising three executive Directors, one non-executive Director and three independent non-executive Directors. Each of the Directors is aware of his or her fiduciary duties as a Director of our Company which requires, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and the Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. Further, the independent non-executive Directors will bring independent judgment to the decision making process of the Board. In addition, members of our senior management, who are responsible to take charge of our daily operations, are independent from the Controlling Shareholders and their associates. Our senior management team possesses in-depth experience and understanding of the industry in which we are engaged. In this regard, the Directors are of the view that our Group can be managed independently notwithstanding that Mr. Wu, being a Controlling Shareholder, is an executive Director.

Operational Independence

Our organisational structure is made up of a number of departments, comprising management and administration department, production and procurement department, sales and marketing department and product design, research and development department. Each department takes a specific role in our operations. There are internal control procedures to ensure effective operation of our business. Furthermore, we have our own production lines and our own sources of suppliers and customers, which are all Independent Third Parties. Accordingly, we can carry out our business operations independently.

Financial Independence

Our Directors are of the view that we do not unduly rely on the advances from our Controlling Shareholders and related parties for our business operations. As at 31 December 2009, 2010 and 2011, the total amounts due to our Controlling Shareholders and their associates were approximately RMB16.8 million, RMB39.1 million and RMB0.4 million, respectively, all of which will be fully settled upon the Listing. We believe that the net profit of our Group would not be adversely affected as a result of the settlement of such interest-free advances, since our Group has started reducing its financial reliance on its shareholders' borrowings (decreased from approximately RMB39.1 million as of 31 December 2010 to approximately RMB0.4 million as of 31 December 2011). Our bank borrowings of approximately RMB20.1 million, RMB45.8 million and RMB71.6 million as at 31 December 2009, 2010 and 2011 secured by personal guarantee from Mr. Wu, our Controlling Shareholder, corporate guarantee from related parties, personal properties owned by Mr. Wu and related parties and guarantee companies which Mr Wu provided back-to back guarantee in relation to the banking facilities utilised by our Group will be released upon Listing. Our Directors believe that

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND DIRECTORS

we are capable of obtaining financing from external sources without reliance on our Controlling Shareholders. We have considered using our assets to secure the financing from banks in the future. Furthermore, we have established our own financial accounting system independent of our Controlling Shareholders. We have our own bank account, make our tax registrations and have employed a sufficient number of financial accounting personnel. Accordingly, our Directors consider that we are capable of operating independently from a financial perspective.

NON-DISPOSAL UNDERTAKINGS GIVEN BY OUR CONTROLLING SHAREHOLDERS

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has, jointly and severally, undertaken with our Company and the Stock Exchange that each of them shall not and shall procure that the relevant registered holder(s) shall not:

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he or it is shown by this prospectus to be the beneficial owner(s); and
- (b) in the period of six months commencing on the date on which the First Six-Month Period expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, our Controlling Shareholders would cease to be our Controlling Shareholders, i.e. they cease to control 30% or more of the voting power at general meetings of our Company.

Further, each of our Controlling Shareholders has, jointly and severally, undertaken with our Company and the Stock Exchange that within a period commencing from the Listing Date and ending on the date on which is the first anniversary of the Listing Date, he or it shall:

- (a) when he or it pledges or charges any securities beneficially owned by her or it in favour of an authorised institution (as defined under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when he or it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities will be disposed of, immediately inform us of such indications.

CONNECTED TRANSACTIONS

Our Company has entered into a series of transactions with Jiupengxi which will, upon the completion of the Global Offering, constitute continuing connected transactions of our Company under the Listing Rules.

Continuing Connected Transactions Exempt from the Independent Shareholders' Approval

Sale of Parts and Structures of Timber Villas to Jiupengxi

Since December 2010, Zhangping Kimura, a wholly-owned subsidiary of our Company, has entered into a series of transactions with Jiupengxi by selling parts and structures of timber villas to Jiupengxi. In order to regulate the said transactions, Zhangping Kimura has entered into the Agreement for Sale and Purchase of Parts and Structures of Timber Villas with Jiupengxi (木屋構件及休閒家居用品之銷售及採購框架協議) on 15 June 2012 (the "Jiupengxi Agreement"), pursuant to which Zhangping Kimura shall sell parts and structures of timber villas to Jiupengxi for the three years ending 31 December 2014 at the price to be agreed following arm's length negotiations between the parties with reference to the production costs and the price offered to Independent Third Parties.

(a) *Historical transaction value*

For the years ended 31 December 2009, 2010 and 2011, the aggregate amounts of sales by Zhangping Kimura to Jiupengxi are approximately RMBnil, RMB0.4 million and RMB2.1 million respectively.

(b) *Annual caps*

The Directors expect that the maximum aggregate annual transaction amount with Jiupengxi will not exceed the respective caps of RMB8 million, RMB10 million and RMB8 million for the three years ending 31 December 2014.

The proposed annual caps for the three years ending 31 December 2012, 2013 and 2014 are determined with reference to; (i) the market prices of the parts and structures of timber villas which are no less favourable to our Group than terms available to independent third parties; and (ii) expected demand from Jiupengxi in the three years ending 31 December 2014 resulting from expansion of Jiupengxi of its phase three construction work to be completed in 2015.

Jiupengxi's phase three construction work is expected to run from 2012 to 2015. It involves the construction of two suspension bridges, scenic tour trail, leisure resorts, eco-tourism area, bamboo forest, wild fruits picking area, interactive entertainment district and travel services supporting facilities which will lead to the significant increase in demand of our Group's products. According to the construction plan provided by Jiupengxi, Jiupengxi expected to invest in aggregate of RMB80 million, representing RMB25 million, RMB30 million, RMB20 million and RMB5 million in 2012, 2013, 2014 and 2015 respectively, by which a share of approximately 30% to 40% is expected to be the purchase from our Group from 2012 to 2015.

CONNECTED TRANSACTIONS

(c) *Listing Rules Implications*

In the circumstances that (i) Mr. Wu, the executive Director, chairman and the chief executive officer of our Company, is the director of Jiupengxi and owns 89.6% of its equity interests; and (ii) Mrs. Wu Jiao Lan, mother of Mr. Wu, holds the remaining 10.4% shares in Jiupengxi, Jiupengxi shall be regarded as a connected person of our Company under the Listing Rules. Besides, as each of the percentage ratios (other than the profits ratio) under Chapter 14A of the Listing Rules, where applicable, in respect of the Jiupengxi Agreement, on an annual basis, is more than 0.1% but less than 5%, the Jiupengxi Agreement constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules and is subject to the reporting and announcement requirements but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

2. *Application for Waiver*

We have requested the Stock Exchange to grant, and the Stock Exchange has agreed to grant us a waiver pursuant to its discretion under Rule 14A.42(3) of the Listing Rules regarding the continuing connected transaction set out under the paragraph headed "Sale of Part and Structures of Timber Villas to Jiupengxi" above from strict compliance with the announcement requirements under the Listing Rules. In addition, we confirm that we will comply with the applicable provisions under Rules 14.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14.40 of the Listing Rules.

3. *Confirmation from Our Directors*

Our Directors (including the independent non-executive Directors) are of the view that the continuing connected transactions described above have been and shall be entered into on normal commercial terms that are fair and reasonable and in the interest of our Shareholders as a whole and in the ordinary and usual course of business of our Company and will be so in the future, and the transaction and proposed annual caps set out above are fair and reasonable and in the interests of our Shareholders as a whole.

4. *Confirmation from the Sole Sponsor*

The Sole Sponsor is of the view that (i) the continuing connected transactions described above for which the waiver is sought have been entered and shall be entered into on normal commercial terms that are fair and reasonable and in the interest of the shareholders as a whole and in the ordinary and usual course of business of our Company; and (ii) the Jiupengxi's transactions and their proposed annual cap amounts are fair and reasonable and are in the interest of the Shareholders as a whole.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS

The Board consists of seven directors, three of whom are independent non-executive Directors.

The following table sets forth certain information regarding our Directors:

| Name | Age | Position | Date of appointment |
|--------------|-----|--|---------------------|
| Wu Zheyuan | 33 | Executive Director, chairman and chief executive officer | 17 October 2011 |
| Wu Qingshan | 44 | Executive Director | 15 June 2012 |
| Xie Qingmei | 44 | Executive Director | 15 June 2012 |
| Wu Dongping | 57 | Non-executive Director | 15 June 2012 |
| Lam Hin Chi | 48 | Independent non-executive Director | 15 June 2012 |
| Jin Zhongwei | 74 | Independent non-executive Director | 15 June 2012 |
| Su Wenqiang | 56 | Independent non-executive Director | 15 June 2012 |

Executive Directors

Wu Zheyuan (吳哲彥) (Mr. Wu), aged 33, is an executive Director, chairman and chief executive officer of our Company. He joined Zhangping Kimura as a workshop director since 1997 and obtained knowledge and experiences in the timber products industry including the production process, research and development works and the invention process of new timber products. Mr. Wu became the general manager in May 2000 and the director and legal representative of Zhangping Kimura in January 2006. Besides, Mr. Wu was also the chairman of Fuyuan Wood Farm, a company which runs the retail business of flowers, nursery stocks, logs, small diameter timber and fuelwood, from November 2005 to November 2007. He acquired internal control and management skills through the above management positions. He has been the chairman of Jiupengxi since April 2004. As a result of Mr. Wu's expertise in wood preservation and processing technologies, our Group has managed to benefit by creating a diverse portfolio of new products. As at the Latest Practicable Date, Mr. Wu had invented 37 patented products, and is the inventor of 42 pending patent applications.

From 2005 to date Mr. Wu has received a number of recognitions for his outstanding achievements, including the 11th session of the 10 Outstanding Young Farmers of China (第十一屆中國傑出青年農民), Brilliant Undertakings National Land Greenery Contribution Award (光彩事業國土綠化貢獻獎), National Greenery Award (全國綠化獎章) and Rural Youth Leader for Enrichment by Entrepreneurship in China (全國農村青年創業致富帶頭人標兵). He is also a vice president of the 5th session of the Council of Fujian Youth Chamber of Commerce (福建省青年商會第五屆理事會副會長), a member of Longyan People's Congress, a member of the standing committee of Zhangping People's Congress, and a vice president of the Zhangping Charity Federation (漳平市慈善總會副會長).

Mr. Wu graduated from Sichuan University in June 2009 with a Junior College Diploma in business administration (Distance education). Mr. Wu is a son of Mr. Wu Dongping and a nephew of Mr. QS Wu.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Wu Qingshan (吳青山) (Mr. QS Wu), aged 44, is an executive Director of our Company. Mr. QS Wu is currently in charge of marketing and production management for our Group. Mr. QS Wu has over 22 years of experience in timber products enterprise management. Before joining our Group, Mr. QS Wu served as a deputy director of Zhangping Textile Machinery Factory (漳平市紡織器材廠副廠長) from 1993 to 1995 and a technician of Zhangping Xinan Timber Processing Factory (漳平市溪南木材綜合加工廠) from 1986 to 1993. During his tenure as a technician of Zhangping Xinan Timber Processing Factory, Mr. QS Wu was responsible for the management of the production of wooden products and production facilities. Since the foundation of our Group in 1995, Mr. QS Wu has been a director and a deputy general manager of Zhangping Kimura.

Mr. QS Wu graduated from Zhangping Xi'nan Middle School (漳平市溪南中學) in July 1985. He is an uncle of Mr. Wu and a brother-in-law of Mr. Wu Dongping.

Xie Qingmei (謝清美) (Ms. Xie), aged 44, is an executive Director and a deputy general manager of our Company. Ms. Xie is primarily responsible for procurement matters in respect of our Group. She has over 10 years of experience in corporate management and procurement. Ms. Xie joined our Group in 1999, and she has been a deputy general manager of Zhangping Kimura since 2001 and a director of Zhangping Kimura since 2006. Ms. Xie was in charge of the sales department of Zhangping Kimura as well as supervising procurement from June 1999 to December 2000, and has been running the procurement department of Zhangping Kimura since 2003. She served as a worker at Jian'ou Xiaoqiao Construction Company (建甌縣小橋建築社) from October 1986 to December 1991. Ms. Xie graduated from Jian'ou Xiaosong Middle School (建甌市小松中學) in July 1984.

Non-executive Director

Wu Dongping (吳冬平), aged 57, is a non-executive Director of our Company and the founder of our Group. Mr. Wu Dongping was the chief engineer of Zhangping Kimura from February 2006 to November 2010. Before co-founding our Group, Mr. Wu Dongping was the chairman and the general manager of Zhangping Kimura from December 1995 to January 2006 and the director of Zhangping Textile Machinery Factory in Fujian (福建省漳平市紡織器材廠) from December 1992 to November 1995, respectively. Mr. Wu Dongping has been a member of the Technical Committee of Structural Use of Wood under the National Committee of Standardisation Technology of Timber (全國木材標準化技術委員會結構用木材分技術委員會). He was elected as a member of the fourth session of the Preservation Committee of Wood Industry Institute, Chinese Society of Wood Industry (中國林學會木材工業分會木材研究所保護研究會第四屆委員會) in April 2007 and was elected to the position of vice president of the China Wood Preservation Industry Association (中國木材保護工業協會) in October 2011. Mr. Wu Dongping has over 15 years of experience in the fields of wood processing, preservation and timber structures. Mr. Wu Dongping participated in, on behalf of our Group, the drafting of two PRC national and forestry industry standards, and has been involved in the reviewing of PRC national and forestry industry standards. Currently Mr. Wu Dongping is participating in, on behalf of our Group, the drafting of two PRC national industry standards. As at the Latest Practicable Date, Mr. Wu Dongping was the inventor of 4 patents and the co-inventor of 1 patent (patent number: ZL200620087942.9). Despite our Group does not own the said 5 patents, we are granted the exclusive right to use 4 of them till 2 August 2017.

Mr. Wu Dongping is the father of Mr. Wu and a brother-in-law of Mr. QS Wu.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Independent non-executive Directors

Lam Hin Chi (藍顯賜), aged 48, was appointed as an independent non-executive Director of our Company since 15 June 2012. Mr. Lam is a fellow member of The Association of Chartered Certified Accountants, and an associate member of The Chartered Institute of Management Accountants, The Institute of Chartered Accountants in England and Wales and The Hong Kong Institute of Certified Public Accountants, respectively. Mr. Lam graduated from The Hong Kong Polytechnic University with a Professional Diploma in Management Accountancy and a Bachelor of Arts degree (Honours) in Accountancy. Mr. Lam has over 23 years of experience in finance, audit and accounting. Mr. Lam was senior personnel of a number of companies listed on the main board of the Stock Exchange as follows:-

| Name of company | Stock Code | Position | Period |
|--|------------|--|--------------|
| Fong's Industries Company Limited | 641 | Financial controller | 1997 to 2000 |
| VST Holdings Limited and/or its group members | 856 | Executive director, chief financial officer and company secretary | 2000 to 2002 |
| Hop Fung Group Holdings Limited and/or its group members | 2320 | Executive director, chief financial officer and company secretary | 2002 to 2004 |
| China Properties Group Limited and/or its affiliates | 1838 | Assistant general manager of accounting department and company secretary | 2005 to 2007 |
| Computime Group Limited | 320 | Vice president of the finance department | 2007 to 2012 |

Professor Jin Zhongwei (金重為), aged 74, was appointed as an independent non-executive Director of our Company on 15 June 2012. He is an expert in wood preservation with over 35 years of experience in wood preservation. Professor Jin graduated from Nanjing Forestry College in 1961 and majored in forestry products chemical processing. He studied wood preservation and modification technologies in the United States as a government-appointed scholar from 1981 to 1983, and was a visiting scholar at Oregon State University and Mississippi State University from 1994 to 1995 respectively. As at the Latest Practicable Date, Professor Jin had coordinated the formulation of ten PRC national trade and forestry industry standards. Further, Professor Jin has also obtained qualifications and has relevant experiences listed as follows:

| Name of company/Institution | Position | Period |
|--|---|--------------|
| Nanjing Forestry University | Deputy dean of the forestry and chemical department | 1988 to 1992 |
| Wood Preservation Institute of Nanjing Forestry University | Honorary director | 2006 |

DIRECTORS, SENIOR MANAGEMENT AND STAFF

| Name of company/Institution | Position | Period |
|--|---|--------|
| Standardisation Committee of China Timber and Wood Products Distribution Association Wood Preservation Committee (中國木材與木製品流通協會木材防腐 專業委員會) | Deputy President and director of steering committee Deputy director | 2009 |
| Guangzhou Xing Yue Wood Preservative Company Limited (廣州星悅木材防腐劑有限公司) | Senior consultant | 2010 |
| Standardisation Committee of China Wood Preservation Industry Association (中國木材保護工業協會) | Director of steering committee | 2010 |

Professor Su Wenqiang (蘇文強), aged 56, was appointed as an independent non-executive Director of our Company on 15 June 2012.

Professor Su has about 30 years of experience in forestry and timber products research area. Currently, he is a deputy dean of the Material Science and Engineering School of Northeast Forestry University (東北林業大學), focus on paper manufacturing and wood reservation projects research.

Other than the above, Professor Su was awarded as Model Member of the Communist Party (優秀共產黨員) from 2006 to 2007, and was appointed as various positions in timber industry, e.g., council member of Standing Committee of the Heilongjiang Province Chemistry Society (黑龍江省化工學會理事會) (in December 2004), committee member of Wood Science Institute of the Chinese Society of Forestry (中國林學會木材科學分會) (in April 2010), member of Board of Experts of Standardisation Committee of China Timber and Wood Products Distribution Association Wood Preservation Committee (中國木材與木製品流通協會木材防腐專業委員會專家指導委員會) (in December 2009), member of Board of Experts Committee of Standardisation Committee of China Wood Preservation Industry Association (中國木材保護工業協會專家委員會) (in October 2011), committee member of the Wood Preservation Research Committee of the Wood Science Institute of the Chinese Society of Forestry (中國林學會木材科學分會木材保護研究會委員會) (in April 2007) and editor of editorial committee of Biomass Chemical Engineering published by Institute of Chemical Industry of Forest Products (中國林業科學研究院林產化學工業研究所《生物質化學工程》) (in December 2010).

Except for the science and research projects Professor Su participated in were sponsored by the National Nature Science Fund (國家自然科學基金), the academic papers or researches he participated in were also conferred awards and recognitions, including Heilongjiang Province Excellent Higher Education Science Achievement Award (黑龍江省優秀高等教育科學成果獎) and Heilongjiang Province Higher Education Association Achievement Award (黑龍江省高等教育學會成果獎). As at the Latest Practicable Date, Professor Su had chaired two projects of National Nature Science Fund.

Professor Su graduated from Northeast Forestry University in July 1982, major in professional chemical processing of forest products (林產化學加工工程專業), and obtained a Doctor's Degree in December 2008.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Save as disclosed above, during the three years prior to the Latest Practicable Date, Professor Su did not hold any position in other listed companies.

The Corporate Governance Code in Appendix 14 to the Listing Rules provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Wu has been performing both the roles of chairman and chief executive officer of our Group. Mr. Wu has over 15 years of experience in the timber industry. The Directors consider that vesting two roles in the same person provides our Group with strong and consistent leadership in the development and execution of our Group's business strategies and is beneficial to our Group. Our Directors will continue to review the effectiveness of the current structure and assess whether change in the separation of roles of chairman and chief executive officer is necessary.

Senior Management

Chen Tianfu (陳天福), aged 46, is the chief financial officer of our Group. Since joining our Group in 2009, Mr. Chen has been responsible for our Group's financial management affairs. Prior to joining our Group, Mr. Chen was in charge of the financial departments respectively of Jiangxi Sanhua Real Estate Co. Ltd. (江西三華置業有限公司) and Fujian Dufeng Sugar Factory (福建省度峰糖廠) respectively. Mr. Chen has over 20 years of experience in corporate financial management and possesses the qualifications of an accountant in the PRC. Mr. Chen graduated from Fujian Quanzhou Supply and Sales School (福建省泉州供銷學校) in 1986 majoring in financial accounting with a secondary vocational school diploma.

Wong On Lai (黃安麗), aged 29, is the financial controller of our Group. Miss Wong is a member of the Hong Kong Institute of Certified Public Accountants. Miss Wong joined our Group in 2011 and is responsible for our Group's accounting and financial management. Miss Wong successively worked at PricewaterhouseCoopers and KPMG from August 2004 to September 2011. Miss Wong graduated from Hong Kong University of Science and Technology with a Bachelor's degree.

Company Secretary

Wong On Lai (黃安麗) is also the company secretary of our Company. For details of her background, please refer to the paragraph headed "Senior Management" in this section.

BOARD COMMITTEES

Audit Committee

The audit committee was established on 15 June 2012 in accordance with the requirements of Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, with effect from the Listing Date, with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

The audit committee comprises three members, namely, Prof. Jin Zhongwei, Prof. Su Wenqiang and Mr. Lam Hin Chi, all of whom are independent non-executive Directors. The primary duties of the audit committee are to review and supervise our financial reporting processes and internal control systems, nominate and monitor external auditors and provide advice and comments to the Directors. Mr. Lam is the chairman of the audit committee.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Remuneration Committee

The remuneration committee was established on 15 June 2012 in accordance with the requirements of the Corporate Governance Code as set out in the Listing Rules, with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

The remuneration committee comprises three members, namely, Prof. Jin Zhongwei, Prof. Su Wenqiang and Mr. Lam Hin Chi, all of whom are independent non-executive Directors. The primary duties of the remuneration committee are to evaluate the performance and determine the remuneration packages of our executive Directors and senior management and to make recommendations on the remuneration of non-executive Directors. Prof. Jin Zhongwei is the chairman of the remuneration committee.

Nomination Committee

The nomination committee was established on 15 June 2012 in accordance with the requirements of the Corporate Governance Code as set out in the Listing Rules, with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

The nomination committee comprises three members, namely, Prof. Jin Zhongwei, Prof. Su Wenqiang and Mr. Lam Hin Chi, all of whom are independent non-executive Directors. The nomination committee is chaired by Prof. Jin Zhongwei. The primary duties of the nomination committee are to review the structure, size and composition of our Board on a regular basis, and to make recommendations to our Board regarding the nomination of suitable candidates to fill vacancies on our Board.

Compensation of Directors

For the years ended 31 December 2009, 2010 and 2011, the aggregate amount of fees, salaries, housing allowances, other allowances, benefits in kind (including contribution to the pension scheme on behalf of our Directors) and discretionary bonuses paid by our Group to our Directors were approximately RMB0.5 million, RMB0.6 million and RMB0.6 million, respectively.

Compliance Adviser

We intend to appoint Guotai Junan Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;

DIRECTORS, SENIOR MANAGEMENT AND STAFF

- (iii) if our Group proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or if the business activities, developments or results of our Group deviate from any forecast, estimate or other information in this prospectus; and
- (iv) if the Stock Exchange makes an inquiry of our Group under Rule 13.10 of the Listing Rules.

The term of appointment of the compliance adviser shall commence on the Listing Date and end on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year ending 31 December 2013, and such appointment may be subject to extension by mutual agreement.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors were aware, based on the information available as at the Latest Practicable Date, immediately following completion of the Capitalisation Issue and the Global Offering (taking no account of any Shares which may be taken up under the Global Offering and assuming that the Over-allotment Option is not exercised), the following persons have the following beneficial interests or short positions in our Shares or underlying Shares who would be required to be disclosed to us under the provisions of Divisions 2 and 3 of part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of Shares carrying the right to vote in all circumstances at general meetings of any other member of our Group:

| Name | Capacity / Nature of interest | Number of Shares | Approximate percentage of shareholding interest |
|-----------------------|--|---------------------|--|
| Green Seas | Beneficial owner / long position (<i>Note 1</i>) | 450,721,200 | 45.07% |
| Mr. Wu | Interest in controlled corporation | 450,721,200 | 45.07% |
| Hong Kong Investments | Beneficial owner / long position (<i>Note 2</i>) | 131,200,000 | 13.12% |
| Mr. Cheung Chi Mang | Interest in controlled corporation | 131,200,000 | 13.12% |

Notes:

1. The entire issued share capital of Green Seas is legally and beneficially owned by Mr. Wu, who is deemed to be interested in the Shares held by Green Seas by virtue of being controlled by Mr. Wu.
2. The entire issued share capital of Hong Kong Investments is legally and beneficially owned by Mr. Cheung Chi Mang, who is deemed to be interested in the Shares held by Hong Kong Investments by virtue of being controlled by Mr. Cheung Chi Mang.

Save as set out above, based on the information available on the Latest Practicable Date, taking no account of any Shares which may be taken up under the Global Offering, the Directors were not aware of any person (not being a Director or chief executive of our Company) who would, immediately following the completion of the Capitalisation Issue and the Global Offering, be interested, directly or indirectly, in an interest or short position in our Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of part XV of the SFO.

Save for the personal investments made by Mr. Wu set forth below, none of our Substantial Shareholders have business interest other than their interest in our business.

SUBSTANTIAL SHAREHOLDERS

Personal investments in businesses held by Mr. Wu

The following table sets out the entities held by Mr. Wu during the Track Record Period and/or as at the Latest Practicable Date and their respective principal businesses:

| Name of entity | Principal business | Interest held |
|---|---|---------------|
| Zhangping Jiupengxi Ecological Tourism Development Company Limited (漳平市九鵬溪生態旅遊發展有限公司) | Sale of agricultural by-products and travel crafts; development of tourism; sale and cooking of Chinese cuisine; sale of standardised package foods; accommodation; retail of cigarettes and cigars | 89.58% |
| Zhangping Jiupengxi Shipping and Logistic Company Limited (漳平市九鵬溪船舶運輸有限公司) | Travel and passenger transport | 60% |
| Zhangping Kimura Fuyuan Wood Farm Company Limited (“Fuyuan Wood Farm”) (漳平市木村富源林場有限公司) | Retail of flower, nursery stocks, logs, small diameter timber and fuelwood | 90% |

Such investments do not and will not compete with the business currently conducted by us. Our Substantial Shareholders have undertaken to us that they will not be engaged in any competing business, and particulars of these undertakings are set forth in the paragraphs under “Deed of Non-Competition” in this section of the prospectus.

Although the business of Fuyuan Wood Farm involves timber, it is not competitive to our Group since its business only covers the planting and sale of timber as raw materials. Furthermore, there is no transaction or contemplated transaction between our Group and Fuyuan Wood Farm during the Track Record Period and in the near future.

None of our substantial Shareholders or Directors is interested in any business apart from the business operated by us which competes or is likely to compete, directly or indirectly, with our Group’s business under Rule 8.10 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

DEED OF NON-COMPETITION

To better safeguard our Group from any potential competition, each of the Covenantors has entered into a deed of non-competition with our Company whereby each of the Covenantors jointly and severally, irrevocably and unconditionally, undertakes with our Company that with effect from the Listing Date and for as long as the Shares remain listed on the Stock Exchange and the Covenantors, individually or collectively with their associates, are, directly or indirectly, interested in not less than 30% of the Shares in issue, or are otherwise regarded as Controlling Shareholders, each of the Covenantors shall, and shall procure that their respective associates shall:

- (a) not directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of our Group or any business activities which our Group may undertake in the future save for the holding of not more than 5% shareholding interests (individually or any of the Covenantors with their associates collectively) in any company listed on the Stock Exchange or any other stock exchange;
- (b) not take any direct or indirect action which constitutes an interference with or a disruption to the business activities of our Group including, but not limited to, solicitation of customers, suppliers and staff of our Group; and
- (c) keep our Board informed of any matter of potential conflicts of interests between the Covenantors (including their associates) and our Group, in particular, a transaction between any of the Covenantors (including his/her/it associates) and our Group.

In addition, each of the Covenantors hereby jointly and severally, irrevocably and unconditionally, undertakes that if any Business Opportunity relating to any products and/or services of our Group is made available to any of the Covenantors or their respective associates (other than members of our Group), he/she/it will direct or procure the relevant associate to direct such Business Opportunity to our Group with such required information to enable our Group to evaluate the merits of the Business Opportunity.

The relevant Covenantor shall provide or procure the relevant associate to provide all such reasonable assistance to enable our Group to secure the Business Opportunity. None of the Covenantors and their respective associates (other than members of our Group) will pursue the Business Opportunity until our Company decides not to pursue the Business Opportunity because of commercial reasons. Any decision of our Company will have to be approved by the independent non-executive Directors (with those independent non-executive Directors who are interested in such Business Opportunity and their associates abstained from voting) taking into consideration the prevailing business and financial resources of our Group, the financial resources required for the Business Opportunity and any expert opinion on the commercial viability of the Business Opportunity.

Each of the Covenantors further jointly and severally, irrevocably and unconditionally, undertakes that he/she/it will (i) provide to our Group all information necessary for the enforcement of the undertakings contained in the deed of non-competition; and (ii) confirm to our Company on an annual basis as to whether he/she/it has complied with such undertakings.

SUBSTANTIAL SHAREHOLDERS

The deed of non-competition will cease to have any effect on the earliest of the date on which:

- (a) our Company becomes wholly-owned by the Covenantors and/or their associates;
- (b) the aggregate beneficial shareholding (whether direct or indirect) of the Covenantors and/or their associates in the Shares falls below 30% of the number of Shares in issue or the relevant Covenantor (together with other Covenantors and their associates) shall cease to be our Controlling Shareholder (as defined in the Listing Rules); or
- (c) the Shares cease to be listed on the Stock Exchange.

SHARE CAPITAL

SHARE CAPITAL

The following is a description of our authorised and issued share capital immediately before and after completion of the Global Offering assuming that the Global Offering becomes unconditional and is completed:

| | <i>HK\$</i> |
|--|-------------|
| Authorised share capital: | |
| 10,000,000,000 Shares of HK\$0.01 each | 100,000,000 |
| Issued share capital as at the date of this prospectus: | |
| 1,000,000 Shares of HK\$0.01 each | 10,000 |
| Shares to be issued pursuant to the Capitalisation Issue: | |
| 819,000,000 Shares of HK\$0.01 each | 8,190,000 |
| Shares to be issued pursuant to the Global Offering: | |
| 180,000,000 Shares of HK\$0.01 each | 1,800,000 |
| Shares to be issued on exercise of the Over-allotment Option in full: | |
| 27,000,000 Shares of HK\$0.01 each | 270,000 |
| Total issued and to be issued Shares on completion of the Capitalisation Issue and the Global Offering (assuming no exercise of the Over-allotment Option) | |
| 1,000,000,000 Shares of HK\$0.01 each | 10,000,000 |
| Total issued and to be issued Shares on completion of the Capitalisation Issue and the Global Offering (assuming there is exercise of the Over-allotment Option in full) | |
| 1,027,000,000 Shares of HK\$0.01 each | 10,270,000 |

According to Rule 8.08 of the Listing Rules, at the time of the Listing and at all times thereafter, our Company must maintain the “minimum prescribed percentage” of 25% of our issued share capital in the hands of the public.

RANKING

The Shares are ordinary shares in the share capital of our Company and rank equally with all Shares currently in issue or to be issued and, in particular, will qualify for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Subject to the conditions stated in the section headed “Structure of the Global Offering” in this prospectus, our Directors have been granted a general unconditional mandate to allot, issue and deal

SHARE CAPITAL

with Shares with an aggregate nominal value of not more than the sum of: (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering (but before any exercise of the Over-allotment Option); and (ii) the aggregate nominal value of the share capital of our Company repurchased by us (if any).

This general mandate to issue Shares will expire:

- (i) at the end of our next annual general meeting;
- (ii) at the end of the period within which we are required by any applicable law or our Articles of Association to hold our next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, please refer to the sub-paragraph headed “A. Further Information about Our Group — Written resolutions of our Shareholder passed on 15 June 2012” in Appendix VI to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions stated in the paragraph headed “Conditions of the Global Offering” under the section headed “Structure of the Global Offering” in this prospectus, our Directors have been granted a general unconditional mandate to exercise all powers to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal value of our share capital in issue immediately following the completion of the Global Offering (excluding any Shares issued on any exercise of the Over-allotment Option).

This general mandate only relates to repurchases made on the Hong Kong Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the sub-paragraph headed “5. Repurchase of our Shares” under the paragraph headed “A. Further information about our Group” in Appendix VI to this prospectus.

This general mandate to repurchase Shares will expire:

- (i) at the end of our next annual general meeting;
- (ii) at the end of the period within which we are required by any applicable law or our Articles of Association to hold our next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

FINANCIAL INFORMATION

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our combined financial information as of and for the three years ended 31 December 2009, 2010 and 2011 and the accompanying notes, all included in the Accountants' Report set out in Appendix I to this prospectus. As more fully described in Appendix I to this prospectus, our financial information has been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

The following discussion contains forward-looking statements that involve risks and uncertainties. Factors that could cause or contribute to such differences include, without limitation, those discussed in the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are a wooden leisure products enterprise in the PRC covering the research and development, design, production and sale of leisure household products and timber villas, sheds and their related parts and structures. We have launched a series of wooden leisure products in order to espouse a leisure and natural lifestyle.

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

During the Track Record Period, our revenue was mainly derived from OEM and ODM sales. Revenue from our OEM and ODM business increased from approximately RMB110.0 million for the year ended 31 December 2009 to approximately RMB172.5 million for the year ended 31 December 2010 and further to approximately RMB240.9 million for the year ended 31 December 2011. While we are able to maintain a substantial growth in revenue from our OEM and ODM businesses, we have explored additional revenue sources by introducing our "Merry Garden 美丽家园" own-branded products into the PRC market since 2010. For the years ended 31 December 2009, 2010 and 2011, our revenue derived from our own-branded products represented approximately 0.0%, 11.0% and 18.8%, respectively, of our total revenue. Given the significance of and the contribution made by our OEM and ODM businesses, the introduction of our own-branded products will not represent a material shift in our business model.

With rising levels in domestic consumption, a series of products was launched by us to satisfy the demand from leisure industry sectors such as tourist scenic spots, rural tourism, leisure clubhouses and private villas. Our products are produced by combining outstanding domestically-made wood preservation technologies together with innovative product designs.

As we traditionally derive the majority of our revenue stream from our OEM and ODM businesses, we continue to cultivate and maintain long-term business relationships with our overseas retail company customers, which include retailers in Japan and Germany who possess retail point of sales networks, and our trading company customers. Since the expansion of our PRC business in 2010, our "Merry Garden 美丽家园" brand has gradually expanded from Fujian Province into other provinces of the PRC, including Guangdong Province and Shanghai, respectively.

FINANCIAL INFORMATION

Our products are sold both internationally and in the PRC markets.

International business

We sell our products to overseas markets on an OEM and ODM basis. Our international markets include North America, the Asia-Pacific (exclusive of the PRC) and Europe. Since our establishment, our products have been well received by our international customers which include trading company customers and retail companies. For the years ended 31 December 2009, 2010 and 2011, our Group's revenue derived from international sales was approximately RMB110.0 million, RMB123.8 million and RMB158.2 million, respectively.

The PRC Market

For the years ended 31 December 2009, 2010 and 2011, our Group's revenue derived from domestic sales was approximately RMB0.04 million, RMB75.8 million and RMB149.0 million, representing approximately 0.03%, 38.0% and 48.5% of our total revenue, respectively. Our principal PRC customers are located in Fujian Province, Guangdong Province and Shanghai. In addition to our ODM sales, we also sell our own-branded products through distributors who possess their own points of sales, trading company customers and to direct end users. Sales from our own-branded products amounted to approximately RMBnil, RMB22.0 million and RMB57.7 million respectively in the years ended 31 December 2009, 2010 and 2011, representing approximately 0.0%, 11.0% and 18.8% of our total sales revenue during the same period. With a view to increasing our market share and brand recognition of the "Merry Garden 美丽家园" brand, we established and opened our first self-operated store in Zhangping city, Fujian Province in December 2011. It is our plan to open more self-operated stores as part of our future plans. Nonetheless, we will maintain the development of our OEM and ODM businesses and there has been no material shift in our business model. Our plan to explore additional revenue sources through establishing more self-operated stores for our own-brand products will be our additional business focus.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on 17 October 2011 as part of the Reorganisation in preparation for the Listing of our Shares on the main board of the Stock Exchange. The Reorganisation is detailed in the section headed "Company History and Reorganisation" in this prospectus. Upon completion of the Reorganisation, the Company became the ultimate holding company of Zhangping Kimura and Merry Garden Wooden Structure.

The companies that took part in the Reorganisation were controlled by the same ultimate controlling shareholder, Mr. Wu, before and after the Reorganisation and therefore there were no changes in the economic substance of the ownership and the business of our Group. The Reorganisation only involved inserting newly formed entities with no substantive operations as new

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holding companies of Zhangping Kimura and Merry Garden Wooden Structure, which were our operating entities during the years ended 31 December 2009, 2010 and 2011. Accordingly, the Reorganisation has been accounted for using a principle similar to that for a reverse acquisition as set out in International Financial Reporting Standard 3, Business Combinations, with Zhangping Kimura treated as the acquirer for accounting purposes. Our financial information has been prepared and presented as a continuation of the financial statements of Zhangping Kimura and Merry Garden Wooden Structure with the assets and liabilities of Zhangping Kimura and Merry Garden Wooden Structure recognised and measured at their historical carrying amounts prior to the Reorganisation.

All material intra-group transactions and balances have been eliminated in preparing our financial information.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

We believe the most significant factors affecting our results of operations and financial condition are as follows:

Our ability to design new products to respond to changing market trends and consumers' tastes

Our success depends to a large extent on having a competent product-design team that is capable of anticipating, identifying and responding effectively to the changing market trends and consumers' tastes. We also face different local competitors and market conditions in different regional markets in the PRC. Accordingly, we need to distinguish our products from those of our competitors.

During the Track Record Period, we developed and launched on average more than 120 new and improved products each year.

We plan to further enhance our ability to design new products, as well as to research and develop new wood preservation and processing technologies and techniques. As a result, our results of operations will be affected, among others, by our ability to design new products. All of these factors, in turn, depend on our ability to effectively respond to the changing market trends and consumers' tastes.

Our ability to continue our fast growth in the PRC market and turnover from end-users

We strengthened our domestic sales in 2010 and direct sales to end-users was one of the business models for our domestic sales. From 2010 to 2011, our turnover from the PRC market grew and such turnover represented 48.5% of our total turnover for the year ended 31 December 2011. Our turnover from end-users also increased and represented 16.7% of our total turnover for the year ended 31 December 2011.

Our future growth depends largely on whether we can continue our fast growth in the PRC market and from our end-users customers. We plan to further increase our PRC market penetration by attending more exhibitions and promotions. We opened our first self-operated store in the PRC in December 2011 and plan to open more in the future. As direct sales to end-users can reduce the intermediate links which enables us to achieve a higher profit margin, the increase in our turnover from end-users will thus improve our financial results.

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Price of principal raw material

Our performance is highly dependent upon the price of timber as the costs of timber raw materials (excluding timber-made semi-finished products) accounted for approximately 68.1%, 58.7%, and 61.4%, of our total purchase for the years ended 31 December 2009, 2010 and 2011, respectively. These prices are affected by numerous factors beyond our control such as the level of demand and supply in Fujian Province and neighbouring provinces, the availability and costs of substitutes, the inventory levels maintained by others, type of trees, and the growth rate of the construction industry. Among all different kinds of timber, raw spruce logs, sawn spruce boards, spruce fine-blanking boards and pinewoods boards, taken together, represented approximately 72.8%, 65.0% and 68.9% of our total purchase of timber raw materials (excluding timber-made semi-finished products) for the years ended 31 December 2009, 2010 and 2011, respectively.

Set out below is a table illustrating the average purchase price of our key timber raw materials for the years ended 31 December 2009, 2010 and 2011:

| | 2009 | 2010 | 2011 |
|-----------------------------|---|---|---|
| | <i>Average timber price RMB/m³</i> | <i>Average timber price RMB/m³</i> | <i>Average timber price RMB/m³</i> |
| Raw spruce logs | 633 | 828 | 796 |
| Sawn spruce boards | 1,140 | 1,329 | 1,604 |
| Spruce fine-blanking boards | 1,761 | 2,278 | 2,312 |
| Sanded spruce boards | 1,924 | 1,901 | 2,171 |
| Pinewood boards | — | 1,540 | 1,671 |
| Spruce (fir) boards | — | — | 1,520 |

If the prices of timber continues to fluctuate in the future and we are unable to pass on any increased cost of raw materials to our customers, our financial condition and operating results may be adversely affected.

A sensitivity analysis on price fluctuations of our major raw material, timber, during the Track Record Period is set out as follows, which illustrates the hypothetical effects on our net profit with 10%, 20%, 30%, 40% and 50% increase or decrease of the timber price, representing the maximum fluctuation of our timber purchase price.

| Years ended | Changes in our net profit for change in timber price of | | | | |
|--------------------|--|----------------|----------------|----------------|----------------|
| | +/-10% | +/-20% | +/-30% | +/-40% | +/-50% |
| 31 December | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| 2009 | -/+4,972 | -/+9,945 | -/+14,917 | -/+19,890 | -/+24,862 |
| 2010 | -/+8,310 | -/+16,619 | -/+24,929 | -/+33,238 | -/+41,548 |
| 2011 | -/+12,421 | -/+24,842 | -/+37,263 | -/+49,684 | -/+62,106 |

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Direct labour costs

We experienced an increase in direct labour costs during the Track Record Period due to the increased number of direct labour we employed and increase in wages. The number of direct labourers increased from 318 as at 31 December 2009 to 403 as at 31 December 2010 and further increased to 475 as at 31 December 2011. The total amount of wages we incurred amounted to RMB6.4 million, RMB9.3 million and RMB13.1 million for the years ended 31 December 2009, 2010 and 2011 respectively. We tried to set off this effect by introducing more machinery and equipment in 2010 and 2011. Our operational results and conditions may be adversely affected should we fail to monitor our direct labour costs.

CRITICAL ACCOUNTING POLICIES

The preparation of our combined financial information and related notes requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net sales and expenses, and related disclosure of contingent assets and liabilities. We have based our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our management has discussed the development, selection and disclosure of these estimates with our Directors. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the combined financial information. We believe that the following critical accounting policies are the most sensitive and are those that require the more significant estimates and assumptions used in the preparation of our combined financial information. We also have other policies that we consider to be significant accounting policies, which are set forth in “Accountants’ Report — Note 1 of section C” in Appendix I to this prospectus.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to our Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Sale of goods*

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) *Contract revenue*

When the outcome of a contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the physical completion proportion of the contract work.

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When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(iii) *Government grants*

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that our Group will comply with the conditions attached to them. Grants that compensate our Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate our Group for the cost of an asset are recognised as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature, which could change significantly as a result of actions of our competitors in response to changes in market conditions. Our management reassesses these estimations at the balance sheet dates to ensure our inventories are shown at the lower of cost and net realisable value.

We monitor our inventory records through periodic reviews and physical inspections with a view to prevent risks of inventory obsolescence. Our procurement department and sales and marketing department conduct monthly reviews on our inventory level to ensure sufficient supply to meet our production needs in the upcoming two to three months. Our finance department also performs monthly reconciliations with the warehousing department to ensure accuracy and consistency between the two records. Any damaged or rotten inventory items would be considered obsolescent and relevant inventory provision would be considered. In cases that the cost of inventory is higher than the net realisable value of the inventory, i.e. the market value of the inventory, provision would be made.

Impairment of trade receivables

Our management determines the impairment of trade receivables on a regular basis. This estimate is based on the credit history of our customers and current market conditions. If the financial conditions of the customers were to deteriorate, actual write-off would be higher than estimated. Our management reassesses the impairment of trade receivables at the balance sheet dates.

In addition, we generally make provisions for trade receivables which are due for more than two years. In the event that any of our customers being wound up voluntarily or by the order of the court, we would make provision of doubtful debts for any trade receivables that cannot be recovered from these customers through court proceedings.

Impairment losses in respect of trade receivables are recorded using an allowance account unless we are satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

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Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with our Group. Based on past experience, our 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. We do not hold any collateral over these balances.

Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. Our management reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on our historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Income tax

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. Our management carefully evaluates tax implications of transactions, and tax provisions are set up accordingly. The tax treatment of these transactions is reconsidered periodically to take into account changes in tax legislations. Deferred tax assets are recognised for deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available, our management's judgment is required to assess the probability of future taxable profits. Our management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

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SUMMARY OF OPERATING RESULTS

The following table sets out a summary of our combined income statements for the years ended 31 December 2009, 2010 and 2011, which are derived from the Accountants' Report as set out in Appendix I to this prospectus.

| | Years ended 31 December | | |
|-----------------------------------|--------------------------------|------------------|------------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Turnover | 110,033 | 199,603 | 307,151 |
| Cost of sales | <u>(80,576)</u> | <u>(127,719)</u> | <u>(195,247)</u> |
| Gross profit | 29,457 | 71,884 | 111,904 |
| Other revenue | 3,022 | 3,073 | 3,504 |
| Other net income/(loss) | 57 | 1,924 | (1,686) |
| Selling and distribution expenses | (4,482) | (5,495) | (9,233) |
| Administrative expenses | <u>(4,891)</u> | <u>(6,663)</u> | <u>(19,653)</u> |
| Profit from operations | 23,163 | 64,723 | 84,836 |
| Finance costs | <u>(1,190)</u> | <u>(1,293)</u> | <u>(3,759)</u> |
| Profit before taxation | 21,973 | 63,430 | 81,077 |
| Income tax | <u>(5,581)</u> | <u>(10,298)</u> | <u>(10,370)</u> |
| Profit for the year | <u>16,392</u> | <u>53,132</u> | <u>70,707</u> |
| Earnings per share | | | |
| Basic and diluted (RMB) | <u>0.02</u> | <u>0.06</u> | <u>0.09</u> |

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PRINCIPAL INCOME STATEMENT ITEMS

Turnover

Our turnover is mainly generated from the sale of timber products. The following table provides a breakdown of our sales by product categories during the Track Record Period:

| | Years ended 31 December | | | | | |
|--|-------------------------|--------------|----------------|--------------|----------------|--------------|
| | 2009 | | 2010 | | 2011 | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Leisure household products | 92,680 | 84.2 | 158,712 | 79.5 | 217,285 | 70.8 |
| Recreational products | 30,522 | 27.7 | 45,789 | 22.9 | 74,750 | 24.3 |
| Landscape garden products | 35,343 | 32.1 | 45,402 | 22.8 | 46,918 | 15.3 |
| Outdoor and indoor furnitures | 6,291 | 5.7 | 41,970 | 21.0 | 64,532 | 21.0 |
| Pet-home designs | 20,524 | 18.7 | 25,551 | 12.8 | 31,085 | 10.2 |
| Timber villas, sheds and their related parts and structures | 17,353 | 15.8 | 35,758 | 17.9 | 81,342 | 26.5 |
| Others | — | — | 5,133 | 2.6 | 8,524 | 2.7 |
| | <u>110,033</u> | <u>100.0</u> | <u>199,603</u> | <u>100.0</u> | <u>307,151</u> | <u>100.0</u> |

Leisure household products include a wide range of products from parts for gardening decorations to children's play houses. The quantities sold varied and was influenced by our expanded production capacity, commencement of domestic sales, further expansion of overseas sales and changes in product mix.

The increase in overall turnover was mainly due to (i) our development of the PRC market; (ii) an increase in the quantity of products sold following an increase in our production capacities during the Track Record Period as we had more production lines in 2010 and 2011 to produce timber villas, sheds and their related parts and structures; (iii) an increase in our product portfolio during the Track Record Period in which our design team launched on average more than 120 new and improved products each year including new products and enhanced or modified versions of our existing products; (iv) a general increase in our selling prices during the Track Record Period as a result of launching new products and our enhanced or modified products; and (v) an increase in the sale of leisure household products which are supplemental to our timber villas.

During the Track Record Period, our turnover of timber villas, sheds and their related parts and structures was approximately RMB17.4 million, RMB35.8 million and RMB81.3 million for the years ended 31 December 2009, 2010 and 2011, respectively. The turnover of our leisure household products was approximately RMB92.7 million, RMB158.7 million and RMB217.3 million for the years ended 31 December 2009, 2010 and 2011, respectively.

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The increase in our sales of timber villas, sheds and their related parts and structures was a result of our increased focus on the timber villas market. We also participated in more projects in 2011 which boosted our sales in timber villas.

For the years ended 31 December 2009, 2010 and 2011, domestic sales of timber villas, sheds and their related parts and structures made to trading company customers amounted to approximately RMB0.04 million, RMB0.2 million and RMB4.6 million, respectively, domestic sales to distributors amounted to approximately RMBnil, RMB8.5 million, and RMB22.5 million, respectively and domestic sales to end users amounted to approximately RMBnil, RMB22.5 million and RMB40.3 million, respectively. Thus, the increase in the sales of our timber villas, sheds and their related parts and structures was mainly attributable to an increase in domestic sales.

Whilst our leisure household products includes four product categories, namely, recreational products, landscape garden products, outdoor and indoor furnitures and pet-home designs, the increase in sales of our leisure household products was mainly driven by an increase in the sales of our recreational products and outdoor and indoor furniture. The turnover for recreational products amounted to approximately RMB30.5 million, RMB45.8 million and RMB74.8 million for the years ended 2009, 2010 and 2011, respectively.

Out of all our recreational products, turnover from children's sandbox products and outdoor playhouse products and parts for outdoor playhouse products, constituted the majority of the increase in the turnover for recreational products. The children's sandbox products reported turnover of approximately RMB1.9 million, RMB2.5 million and RMB25.7 million, respectively for the years ended 31 December 2009, 2010 and 2011. Whilst in the same period, outdoor playhouses reported turnover of approximately RMB0.0 million, RMB13.6 million and RMB43.8 million, respectively, parts for outdoor playhouses reported turnover of approximately RMB19.6 million, RMB23.5 million and RMB1.3 million, respectively.

Thus, the increase in turnover of outdoor playhouses and parts for outdoor playhouses accounted for most of the increase in the turnover for recreational products for the year ended 31 December 2010 for the reason that the outdoor playhouses products started to be sold as fixed sets in the year ended 31 December 2010. This trend continued in 2011 as sales from outdoor playhouses reported an increase of approximately RMB30.2 million. In addition, children's sandbox products increased by approximately RMB23.2 million from RMB2.5 million to RMB25.7 million for the year ended 31 December 2011.

As for outdoor and indoor furnitures products, turnover amounted to approximately RMB6.3 million, RMB42.0 million, and RMB64.5 million for the years ended 31 December 2009, 2010 and 2011 respectively. Within the outdoor and indoor furniture products category, sales of wooden chairs was approximately RMB1.5 million, RMB6.7 million and RMB23.9 million and sales of wooden cabinets was approximately RMB0.3 million, RMB9.1 million and RMB21.2 million for the years ended 2009, 2010 and 2011, respectively. The sales increase in outdoor and indoor furniture in the year ended 31 December 2010 as compared to the year ended 31 December 2009 was partly attributable to a new customer located in North America who purchased goods amounting to approximately RMB7.4 million from us in 2010. For the year ended 31 December 2011, whilst the increase in sales of wooden chairs was partly attributable to the same North American customer, the increase in sales of wooden

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cabinets was also partly attributable to an increase in ODM sales made to customers in Europe. In addition, a broader customer portfolio placed orders for wooden chairs in the PRC which grew from three customers in 2010 to eight customers in 2011 for wooden chairs contributed to the increase in sales of these products for the year ended 31 December 2011.

The significant increase in sales of outdoor and indoor furniture in 2010 was a result of receiving orders from new domestic trading customers as well as receiving additional orders from existing overseas trading customers. The majority of sales in outdoor and indoor furniture were made on an OEM and ODM basis.

With regards to our pet-home designs, turnover amounted to approximately RMB20.5 million, RMB25.6 million, and RMB31.1 million during the Track Record Period, out of which sales of wooden rabbit hutches accounted for approximately RMB0.04 million, RMB11.4 million, and RMB16.2 million, respectively.

The following table sets out information about the geographical location of our Group's turnover from customers during the Track Record Period and the four months ended 30 April 2012 (based on our unaudited management accounts). The geographical location of customers is based on the location where goods were delivered to or where services were provided.

| | Years ended 31 December | | | Four months |
|-------------------------------------|-------------------------|----------------|----------------|----------------|
| | 2009 | 2010 | 2011 | ended 30 April |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| The PRC | 37 | 75,787 | 148,956 | 84,182 |
| North America | 68,737 | 73,545 | 101,220 | 38,486 |
| Europe | 10,057 | 12,376 | 39,613 | 16,972 |
| Asia Pacific (exclusive of the PRC) | <u>31,202</u> | <u>37,895</u> | <u>17,362</u> | <u>8,425</u> |
| | <u>110,033</u> | <u>199,603</u> | <u>307,151</u> | <u>148,065</u> |

During the Track Record Period and for the four months ended 30 April 2012, the proportion of sales in the PRC increased significantly whilst those in the North America and Asia Pacific (exclusive of the PRC) decreased. The turnover from the PRC market was approximately RMB0.04 million, RMB75.8 million, RMB149.0 million and RMB84.2 million for the years ended 31 December 2009, 2010 and 2011 and the four months ended 30 April 2012, respectively. The increase in turnover in the PRC market in the two years ended 31 December 2010 and 2011 was partly attributable to the launch of our "Merry Garden 美丽家园" branded products in the PRC which amounted to approximately RMB22.0 million in 2010 and approximately RMB57.7 million in 2011 and was partly attributable to one of our major trading company customers, HK GHS, shifting their ODM sales orders from the Asia Pacific market (exclusive of the PRC) to another company which belongs to its group, Xiamen GHS, in the PRC market. Mr. Li Xueyan, a former director and shareholder of Zhangping Kimura from January 2006 to October 2008, is the director and shareholder of HK GHS and the legal representative of Xiamen GHS, respectively. To the best knowledge of our Directors, HK GHS shifted their sales orders to Xiamen GHS since 2010 and their transactions with us were since then settled in RMB

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instead of USD in order to reduce the impact of foreign exchange rate fluctuations. As at 30 April 2012, all trade receivables due from Xiamen GHS and HK GHS as at 31 December 2011 had been subsequently settled. The following table sets out the revenue contributed by HK GHS and Xiamen GHS and the percentage of total turnover during the Track Record Period:

| | Years ended 31 December | | | | | |
|------------|--------------------------------|-------------|----------------|-------------|----------------|-------------|
| | 2009 | | 2010 | | 2011 | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| HK GHS | 19,480 | 17.7 | 18,246 | 9.1 | — | — |
| Xiamen GHS | <u>—</u> | <u>—</u> | <u>17,272</u> | <u>8.7</u> | <u>40,797</u> | <u>13.3</u> |
| | <u>19,480</u> | <u>17.7</u> | <u>35,518</u> | <u>17.8</u> | <u>40,797</u> | <u>13.3</u> |

As a result of the above, the proportion of sales to North America and Asia Pacific (exclusive of the PRC) market decreased. We will maintain our development on the OEM and ODM businesses and there has been no material shift in our business model.

The following table sets out information about our Group's turnover by product nature during the Track Record Period and four months ended 30 April 2012 (based on our unaudited management accounts).

| | Years ended 31 December | | | Four months |
|-------------------|--------------------------------|----------------|----------------|-----------------------|
| | 2009 | 2010 | 2011 | ended 30 April |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| OEM | 89,419 | 108,664 | 148,581 | 58,986 |
| ODM | 20,614 | 63,829 | 92,361 | 40,350 |
| Merry Garden 美丽家园 | — | 21,977 | 57,685 | 44,166 |
| Others | <u>—</u> | <u>5,133</u> | <u>8,524</u> | <u>4,563</u> |
| | <u>110,033</u> | <u>199,603</u> | <u>307,151</u> | <u>148,065</u> |

Since 2010, we have strengthened our design, production and sales under our own-brand, "Merry Garden 美丽家园" in the PRC market. The turnover of our "Merry Garden 美丽家园" branded products increased significantly in 2010 and 2011 mainly because of our marketing schemes such as advertising and attending exhibitions. On the other hand, the turnover of our OEM and ODM businesses also recorded significant increase during the same period as we had constantly follow our business model and placed our major focus on these two sectors.

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The following table sets out our revenue, gross profit and gross profit margin by sales channels during the Track Record Period and up to 30 April 2012 (based on our unaudited management accounts):

| | Years ended 31 December | | | | | | Four months ended 30 April | |
|--------------------|-------------------------|--------------|----------------|--------------|----------------|--------------|----------------------------|--------------|
| | 2009 | | 2010 | | 2011 | | 2012 | |
| | Sales | | Sales | | Sales | | Sales | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Trading companies | 100,968 | 91.8 | 144,286 | 72.3 | 214,459 | 69.8 | 90,468 | 61.1 |
| End-user customers | — | — | 29,275 | 14.7 | 51,205 | 16.7 | 24,872 | 16.8 |
| Distributors | — | — | 12,422 | 6.2 | 25,416 | 8.3 | 26,655 | 18.0 |
| Retail companies | 9,065 | 8.2 | 13,620 | 6.8 | 15,558 | 5.1 | 3,523 | 2.4 |
| Store sales | — | — | — | — | 513 | 0.1 | 2,547 | 1.7 |
| | <u>110,033</u> | <u>100.0</u> | <u>199,603</u> | <u>100.0</u> | <u>307,151</u> | <u>100.0</u> | <u>148,065</u> | <u>100.0</u> |

| | Years ended 31 December | | | | | | Four months ended 30 April | |
|--------------------|-------------------------|------|---------------------|------|---------------------|------|----------------------------|------|
| | 2009 | | 2010 | | 2011 | | 2012 | |
| | Gross profit margin | | Gross profit margin | | Gross profit margin | | Gross Profit Margin | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Trading companies | 26,997 | 26.7 | 51,433 | 35.6 | 77,243 | 36.0 | 34,555 | 38.2 |
| End-user customers | — | — | 11,360 | 38.8 | 19,158 | 37.4 | 9,249 | 37.2 |
| Distributors | — | — | 4,222 | 34.0 | 10,076 | 39.6 | 11,166 | 41.9 |
| Retail companies | 2,460 | 27.1 | 4,869 | 35.7 | 5,114 | 32.9 | 1,221 | 34.7 |
| Store sales | — | — | — | — | 313 | 61.0 | 1,422 | 55.8 |
| | <u>29,457</u> | | <u>71,884</u> | | <u>111,904</u> | | <u>57,613</u> | |

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Our turnover through trading company customers formed a significant portion of our total turnover which amounted to 91.8%, 72.3%, 69.8% and 61.1% of our total turnover for the years ended 31 December 2009, 2010 and 2011 and the four months ended 30 April 2012, respectively. The increase in turnover from trading company customers is the result of more transactions from such customers. We have started to use distributors as one of our sales channels and direct sales to end-users since 2010. The increase of our turnover in the sales to end-users and distributors was mainly due to the increase in number of our customers during the Track Record Period. The number of our distributors increased from 4 in 2010 to 7 in 2011.

Our overall gross profit increased during the Track Record Period which is principally in line with the increase in our revenue. In particular, such increase is partially contributed by the commencement of sales to end-user customers and distributors in the PRC since 2010.

Our gross profit margin improved from 2009 to 2010 principally because of our increase in production scale along with the increase in sales order which lower our average cost of production. We are able to maintain a stable overall gross profit margin in 2010 and 2011. In terms of customer type, we record a relatively lower gross profit margin from our sales to distributor customers in 2010 which is primarily because we offered a lower price to facilitate the commencement of the distributorship business in 2010. The gross profit margin contributed from our sales to end-user customers has been relatively stable over the period. The lower gross profit margin in 2011 for our sales to retail company customers was principally attributable to the lower price offered to our European retail company customers. No turnover was recorded for the four months ended 30 April 2012 from our European retail company customer. With the first self-operated store opened in December 2011, we enjoyed a higher gross profit margin for our store sales because less involvement of intermediaries was required.

The following tables set out the geographical breakdown of our revenue by product nature:

| | Year ended 31 December 2009 | | | | |
|-------------------------------------|------------------------------------|----------------|-------------------------|----------------|----------------|
| | OEM | ODM | Merry Garden | Others | Total |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| The PRC | — | 37 | — | — | 37 |
| North America | 54,832 | 13,905 | — | — | 68,737 |
| Europe | 6,818 | 3,239 | — | — | 10,057 |
| Asia Pacific (exclusive of the PRC) | <u>27,769</u> | <u>3,433</u> | — | — | <u>31,202</u> |
| | <u>89,419</u> | <u>20,614</u> | — | — | <u>110,033</u> |

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Year ended 31 December 2010

| | OEM | ODM | Merry Garden | Others | Total |
|-------------------------------------|----------------|----------------|-------------------------|----------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| The PRC | — | 48,677 | 21,977 | 5,133 | 75,787 |
| North America | 70,487 | 3,058 | — | — | 73,545 |
| Europe | 10,584 | 1,792 | — | — | 12,376 |
| Asia Pacific (exclusive of the PRC) | <u>27,593</u> | <u>10,302</u> | <u>—</u> | <u>—</u> | <u>37,895</u> |
| | <u>108,664</u> | <u>63,829</u> | <u>21,977</u> | <u>5,133</u> | <u>199,603</u> |

Year ended 31 December 2011

| | OEM | ODM | Merry Garden | Others | Total |
|-------------------------------------|----------------|----------------|-------------------------|----------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| The PRC | — | 82,747 | 57,685 | 8,524 | 148,956 |
| North America | 97,857 | 3,363 | — | — | 101,220 |
| Europe | 39,607 | 6 | — | — | 39,613 |
| Asia Pacific (exclusive of the PRC) | <u>11,117</u> | <u>6,245</u> | <u>—</u> | <u>—</u> | <u>17,362</u> |
| | <u>148,581</u> | <u>92,361</u> | <u>57,685</u> | <u>8,524</u> | <u>307,151</u> |

Our Group generally records higher sales volume in winter because the demand from our customers for recreational products, landscape products and pet homes are usually higher in spring and summer, and we, as the manufacturers, usually start our shipments for such overseas orders from October till the end of February or March.

The following table sets out the proportion of our revenue on quarterly basis:

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|------|--------------------|--------------------|--------------------|--------------------|
| | % | % | % | % |
| 2009 | 37.2 | 12.4 | 17.9 | 32.5 |
| 2010 | 20.3 | 16.7 | 16.7 | 46.3 |
| 2011 | 36.3 | 15.0 | 16.2 | 32.5 |

In December 2011, we established and opened our first self-operated store in Zhangping city, Fujian Province. The store sales from this self-operated store generated turnover of approximately RMB0.5 million in the year ended 31 December 2011.

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Pricing

The following table sets forth, for the periods indicated, the unit price range of our products by product categories. Each of the product categories are further subdivided into two subcategories: (i) parts which represents the products of a product category that are sold as parts or components to our customers and can be used for further processing; and (ii) whole products which can be used directly by the end users. The numbers below include the lowest price and the highest price of products sold of each product subcategory.

| | Years ended 31 December | | | | | |
|--|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|
| | 2009 | | 2010 | | 2011 | |
| | <i>RMB</i> <i>(lowest price)</i> | <i>RMB</i> <i>(highest price)</i> | <i>RMB</i> <i>(lowest price)</i> | <i>RMB</i> <i>(highest price)</i> | <i>RMB</i> <i>(lowest price)</i> | <i>RMB</i> <i>(highest price)</i> |
| Leisure household products | | | | | | |
| Recreational products (parts) | 3.2 | 47.9 | 1.8 | 205.2 | 2.0 | 10.1 |
| Recreational products (whole products) | 140.4 | 2,238.5 | 153.7 | 2,767.6 | 62.1 | 2,423.9 |
| Landscape products (parts) | 0.3 | 40.0 | 0.2 | 44.7 | 0.2 | 79.5 |
| Landscape products (whole products) | 1.3 | 1,387.3 | 9.7 | 5,217.1 | 13.6 | 13,076.9 |
| Furniture (whole products) | 10.2 | 658.6 | 5.0 | 11,567.0 | 27.4 | 8,376.1 |
| Pet-home designs (parts) | 1.2 | 85.8 | N/A | N/A | 32.1 | 81.2 |
| Pet-home designs (whole products) | 8.5 | 2,549.7 | 2.8 | 2,414.6 | 6.5 | 3,290.6 |
| Timber villas, sheds and their related parts and structures | | | | | | |
| Parts | 0.6 | 490.1 | 14.0 | 4,743.6 | 8.2 | 5,598.3 |
| Whole products | 142.0 | 10,297.2 | 641.0 | 47,008.5 | 531.7 | 32,478.6 |

A greater proportion of our leisure household products are sold through OEM/ODM arrangements where prices are determined on a cost-plus basis. Timber villas, sheds and their related parts and structures are mainly sold under our brand name “Merry Garden 美丽家园”. The prices of our products are determined with reference to the market price at the time. The price range fluctuates because we phase out our old designs and bring in new designs to each product subcategory from time to time. As such old and new designs have different production costs, their selling prices will be different as well. Further, for our OEM and ODM products, their prices will also fluctuate with the specific requirements from our customers as well. Different requirements received by us in each year, such as the design and size of the product, will also result in the fluctuation in the highest and lowest price range of our products as well.

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Cost of sales

Our cost of sales consists of materials consumed, direct labour and manufacturing overheads. Materials consumed primarily include spruce and pinewood. Direct labour primarily includes the compensation and benefits we provide to our manufacturing employees. Manufacturing overheads includes depreciation, utilities, non-refundable value-added-tax and others.

The table below sets forth, for the periods indicated, the components of our cost of sales and the components as a percentage of total cost of sales.

| | Years ended 31 December | | | | | |
|------------------------|--------------------------------|--------------|----------------|--------------|----------------|--------------|
| | 2009 | | 2010 | | 2011 | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Materials consumed | 65,713 | 81.6 | 110,001 | 86.1 | 169,921 | 87.0 |
| Direct labour | 6,447 | 8.0 | 9,257 | 7.3 | 13,109 | 6.7 |
| Manufacturing overhead | | | | | | |
| Depreciation | 1,566 | 1.9 | 1,713 | 1.3 | 3,235 | 1.7 |
| Utilities | 1,826 | 2.3 | 1,979 | 1.6 | 2,016 | 1.0 |
| Non-refundable VAT | 4,397 | 5.5 | 4,107 | 3.2 | 5,398 | 2.8 |
| Others | <u>627</u> | <u>0.7</u> | <u>662</u> | <u>0.5</u> | <u>1,568</u> | <u>0.8</u> |
| | <u>80,576</u> | <u>100.0</u> | <u>127,719</u> | <u>100.0</u> | <u>195,247</u> | <u>100.0</u> |

Note: During the years ended 31 December 2009, 2010 and 2011, research and development expenses amounted to approximately RMB5.4 million, RMB6.7 million and RMB5.9 million, respectively, were included in the cost of sales and were recorded under materials consumed, direct labour and depreciation charges.

The increase in the cost of sales during the Track Record Period is in line with the increase in our turnover and mainly attributable to the increase in the average unit price of key raw materials such as timber and the quantity we purchased. The number of direct labour we employed also increased from 318 as at 31 December 2009 to 403 as at 31 December 2010 and further increased to 475 as at 31 December 2011 which also contributed to the increase in the cost of sales.

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Gross profit

The table below sets forth, for the periods indicated, the gross profit margin by product nature, the gross profit margin of ODM by geographical location and the gross profit margin of OEM by geographical location.

| | Years ended 31 December | | | | | |
|-------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | 2009 | | 2010 | | 2011 | |
| | Gross profit margin | Gross profit margin | Gross profit margin | Gross profit margin | Gross profit margin | Gross profit margin |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| By product nature | | | | | | |
| OEM | 23,787 | 26.6 | 37,929 | 34.9 | 51,907 | 34.9 |
| ODM | 5,670 | 27.5 | 24,514 | 38.4 | 35,390 | 38.3 |
| Merry Garden 美丽家园 | — | — | 8,474 | 38.6 | 23,099 | 40.0 |
| Others | — | — | 967 | 18.8 | 1,508 | 17.7 |
| | <u>29,457</u> | | <u>71,884</u> | | <u>111,904</u> | |

| | Years ended 31 December | | | | | |
|--|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | 2009 | | 2010 | | 2011 | |
| | Gross profit margin | Gross profit margin | Gross profit margin | Gross profit margin | Gross profit margin | Gross profit margin |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| ODM by location | | | | | | |
| Asia Pacific (exclusive of the PRC) | 904 | 26.3 | 3,711 | 36.0 | 2,048 | 32.8 |
| The PRC | 13 | 35.1 | 19,130 | 39.3 | 32,200 | 38.9 |
| Europe | 763 | 23.6 | 628 | 35.0 | 2 | 33.3 |
| North America | 3,990 | 28.7 | 1,045 | 34.2 | 1,140 | 33.9 |
| | <u>5,670</u> | | <u>24,514</u> | | <u>35,390</u> | |

| | | | | | | |
|--|---------------|------|---------------|------|---------------|------|
| OEM by location | | | | | | |
| Asia Pacific (exclusive of the PRC) | 7,498 | 27.0 | 9,245 | 33.5 | 3,795 | 34.1 |
| Europe | 1,868 | 27.4 | 3,837 | 36.3 | 13,849 | 35.0 |
| North America | 14,421 | 26.3 | 24,847 | 35.2 | 34,263 | 35.0 |
| | <u>23,787</u> | | <u>37,929</u> | | <u>51,907</u> | |

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OEM and ODM products comprise mainly leisure household products. Our Group managed to improve our gross profit margin due to (i) our “cost-plus” pricing policy for our OEM and ODM products for which our price is charged by reference to our raw materials consumed; (ii) specific requirements of our OEM and ODM customers, such as application of our wood preservation technologies or manufacturing methods which require complex procedures and thus allows us to charge a higher price; and (iii) some new models of our products require a reduced use of materials than their predecessors and render us with a lower cost of production. We generally achieved a higher gross profit margin for our ODM products because of the design services provided by us. However, we may, depending on circumstances, charge a lower price and therefore record a lower gross profit margin for some of our ODM products. For example, having taking into account our relatively small overseas ODM business and in order to attract more overseas ODM orders, we offered a lower price by charging a lower margin when compared with our OEM products. Also, in order to strengthen the relationships with some of our overseas customers, we had offered a lower margin for certain customers who elected to conduct their own product testing and bear these relevant costs. Notwithstanding the lower gross profit margin, we believe securing more ODM orders can confer us with long term benefits, such as strengthening our design capability and allowing us to have greater control in the choice of raw materials, manufacturing process, etc.

“Merry Garden 美丽家园” branded products mainly comprise of timber villas, sheds and their related parts and structure which all are sold in the PRC. Whilst we treat the production costs and other costs of our products as one of our pricing factors, we also take the foreign market price, domestic market price and the responses from our end-user customers, etc. into account when determining the selling price of our products. A higher gross profit margin is achieved for products under the “Merry Garden 美丽家园” brand than ODM products because some of the timber villas are specifically designed and tailored for our customers’ requirements and are sold directly to the end users. This enables us to achieve a higher gross profit margin.

The gross profits for ODM sales in the PRC mainly comprises landscape garden products, pet-home designs and outdoor and indoor furniture. The gross profits of ODM sales in the PRC is higher than other regions because there is no non-refundable value-added-tax chargeable to domestic sales.

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The table below sets forth, for the periods indicated, the gross profit margin of each product category.

| | Years ended 31 December | | | | | |
|--|-------------------------|------|----------------|------|----------------|------|
| | 2009 | | 2010 | | 2011 | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Leisure household products | | | | | | |
| Recreational products | 8,341 | 27.3 | 16,063 | 35.1 | 27,051 | 36.2 |
| Landscape garden products | 9,318 | 26.4 | 16,529 | 36.4 | 16,852 | 35.9 |
| Outdoor and indoor furnitures | 1,704 | 27.1 | 15,625 | 37.2 | 23,907 | 37.0 |
| Pet-home designs | 5,488 | 26.7 | 9,026 | 35.3 | 10,761 | 34.6 |
| Timber villas, sheds and their related parts and structures | 4,606 | 26.5 | 13,675 | 38.2 | 31,825 | 39.1 |
| Others | — | — | 966 | 18.8 | 1,508 | 17.7 |
| | <u>29,457</u> | | <u>71,884</u> | | <u>111,904</u> | |

The gross profit margins of all product categories improved in 2010 as a result of our successful costs reduction measures. Among the leisure household products, we achieved a higher gross profit margin for outdoor and indoor products and landscape garden products because both types of these products were sold in the PRC. The gross profit margin for timber villas, sheds and their related parts and structures was the highest among all our product categories because these products are mainly sold to end users in the PRC. Due to our cost-plus pricing policies, if the cost of raw materials increases, we are able to pass on part or all of such increase to our customers.

Other revenue

Other revenue mainly represents interest income on bank deposits, government subsidies and rental income.

The table below sets forth, for the periods indicated, the components of our other revenue:

| | Years ended 31 December | | |
|----------------------------------|-------------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Interest income on bank deposits | 31 | 93 | 87 |
| Government subsidies | 2,988 | 2,974 | 3,307 |
| Rental income | <u>3</u> | <u>6</u> | <u>110</u> |
| | <u>3,022</u> | <u>3,073</u> | <u>3,504</u> |

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There was no significant change in our other revenue during the Track Record Period. Our other revenue mainly includes government grants received to subsidise i) various expenses incurred such as research and development, marketing, brand promotion, exhibition and patent application, and ii) capital expenditures including infrastructure development costs and lease prepayment for land use right. Government grants received to subsidise our capital expenditure are recognised as other revenue over the useful life of the related assets.

For the years ended 31 December 2009, 2010 and 2011, we received government grants and subsidies amounting to approximately RMB0.5 million, RMB0.3 million and RMB0.4 million, respectively from the Foreign Trade and Economic Cooperation Bureau of Zhangping (漳平市對外貿易經濟合作局). The grants and subsidies were made because we were a qualified corporation exporting goods sold to customers in other countries.

We also received RMB1.0 million from the Accounting and Audit Centre of Zhangping (漳平市會計核算中心) in the year ended 31 December 2010. The grants and subsidies were made due to the quality of our products. In addition, we received RMB0.4 million from the Ministry of Finance of Zhangping (漳平市財政局) in the year ended 31 December 2011. The purpose of the grant was to promote technological innovations in agricultural products and it was awarded to us for our efforts in FRW technologies.

The above discretionary grants and subsidies were granted after passing the assessments performed by the granting government authorities. Therefore, these grants and subsidies were generally not reclaimable. They were also non-recurring in nature as these grants and subsidies were determined on a case-by-case basis in accordance with the relevant rules and administrative procedures of the above government entities.

Other net income/(loss)

Other net income/(loss) mainly represents net foreign exchange loss, net loss on disposal of property, plant and equipment, changes in fair value of derivative financial instruments, i.e. foreign exchange forward contracts and others.

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The table below sets forth, for the periods indicated, the components of our other net income/(loss):

| | Years ended 31 December | | |
|---|--------------------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Other net income/(loss) | | | |
| Net foreign exchange loss | (1,972) | (1,826) | (970) |
| Net loss on disposal of property, plant and equipment | — | — | (243) |
| Changes in fair value of derivative financial instruments | 2,402 | 4,186 | (161) |
| Others | <u>(373)</u> | <u>(436)</u> | <u>(312)</u> |
| | <u>57</u> | <u>1,924</u> | <u>(1,686)</u> |

Our Group entered into several foreign exchange forward contracts during the Track Record Period to hedge US dollars and Euro against RMB. Such contracts were entered into for our normal operations with overseas customers who settled the transactions in US dollars or Euro. For details of our hedging activities, please refer to the paragraph headed “Derivative Financial Instruments and Hedging Activities” in this section.

Selling and distribution expenses

Selling and distribution expenses mainly represent transportation expenses for the delivery of our products to our customers, advertising and promotion expenses, expenses incurred at shipping ports, and other miscellaneous expenses.

The table below sets forth, for the period indicated, the components of our selling and distribution expenses.

| | Years ended 31 December | | | | | |
|----------------------|--------------------------------|--------------|----------------|--------------|----------------|--------------|
| | 2009 | | 2010 | | 2011 | |
| | <i>RMB'000</i> | <i>%</i> | <i>RMB'000</i> | <i>%</i> | <i>RMB'000</i> | <i>%</i> |
| Delivery charges | 2,582 | 57.6 | 3,100 | 56.4 | 4,430 | 48.0 |
| Port expenses | 884 | 19.7 | 1,192 | 21.7 | 2,438 | 26.4 |
| Advertising expenses | 111 | 2.5 | 212 | 3.9 | 1,143 | 12.4 |
| Staff costs | 281 | 6.3 | 348 | 6.3 | 430 | 4.7 |
| Others | <u>624</u> | <u>13.9</u> | <u>643</u> | <u>11.7</u> | <u>792</u> | <u>8.5</u> |
| | <u>4,482</u> | <u>100.0</u> | <u>5,495</u> | <u>100.0</u> | <u>9,233</u> | <u>100.0</u> |

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The majority of delivery charges and port expenses are incurred during transportation of our products to the overseas customers. Generally, domestic customers arrange for their own transportation and bear their own delivery charges. Delivery charges and port expenses are mainly incurred in relation to our Group's overseas sales. The increase in selling and distribution expenses during the Track Record Period is in line with the increase in overseas sales and our increased effort in promoting our brand name "Merry Garden 美丽家园".

Administrative expenses

Administrative expenses mainly represent salary and welfare expenses for management and administrative personnel, advertising, tax and levies, entertainment, vehicle, consultancy, legal and professional fees, and other administrative expenses.

The table below sets forth, for the period indicated, the components of our administrative expenses.

| | Years ended 31 December | | | | | |
|-------------------------------|-------------------------|--------------|----------------|--------------|----------------|--------------|
| | 2009 | | 2010 | | 2011 | |
| | <i>RMB'000</i> | % | <i>RMB'000</i> | % | <i>RMB'000</i> | % |
| Staff costs | 1,778 | 36.4 | 2,395 | 35.9 | 6,014 | 30.6 |
| Professional fees | 27 | 0.6 | 63 | 0.9 | 3,942 | 20.1 |
| Depreciation and amortisation | 1,012 | 20.7 | 987 | 14.8 | 1,525 | 7.8 |
| Guarantee fee | 114 | 2.3 | 191 | 2.9 | 542 | 2.8 |
| Bank charges | 79 | 1.6 | 124 | 1.9 | 483 | 2.5 |
| Property insurance fee | 150 | 3.1 | 222 | 3.3 | 334 | 1.7 |
| Motor vehicle expenses | 244 | 5.0 | 520 | 7.8 | 435 | 2.2 |
| Others | <u>1,487</u> | <u>30.3</u> | <u>2,161</u> | <u>32.5</u> | <u>6,378</u> | <u>32.3</u> |
| | <u>4,891</u> | <u>100.0</u> | <u>6,663</u> | <u>100.0</u> | <u>19,653</u> | <u>100.0</u> |

Note: During the years ended 31 December 2009, 2010 and 2011, research and development expenses amounted to approximately RMB0.3 million, RMB0.6 million and RMB3.9 million, respectively, were included in the administrative expenses and were recorded under staff costs, depreciation and amortisation and others.

The increase in administrative expenses was mainly attributable to the increase in staff costs and professional fees. The increase in staff costs from RMB1.8 million in 2009 to RMB2.4 million in 2010 and to RMB6.0 million in 2011 was due to an increase in headcount from 46 in 2009 to 59 in 2010, and to 91 in 2011 and expansion of our research and development department. The increase in professional fees was due to the fees involved in connection with the proposed Listing.

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The table below sets out the breakdown of our other administrative expenses:-

| | Years ended 31 December | | |
|--|-------------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Office expenses | 270 | 434 | 517 |
| Travelling and delivery expenses | 144 | 254 | 344 |
| Welfare expenses | 218 | 406 | 476 |
| Research and development expenses ⁽¹⁾ | — | — | 1,844 |
| Bank charges and fees ⁽²⁾ | 318 | 482 | 953 |
| Other tax ⁽³⁾ | 248 | 343 | 1,868 |
| Miscellaneous | <u>289</u> | <u>242</u> | <u>376</u> |
| | | | |
| Total | <u>1,487</u> | <u>2,161</u> | <u>6,378</u> |

Notes:

1. Research and development expenses comprise all the outgoings of our research and development department (e.g. application fee for patent) except for staff costs.
2. Bank charges and fees were incurred for extending credit facility and for maintaining our bank accounts.
3. Other tax includes taxes were mainly urban maintenance and construction tax levied on our PRC subsidiaries.

The increase in other administrative expenses was mainly due to increases in other taxes paid such as urban maintenance and construction tax (城市維護建設稅), material cost for research & development as well as miscellaneous expenses such as office expenses and travelling expenses.

During the Track Record Period, we have enhanced our research and development activities by employing more different testing procedures in our research and development projects. Therefore, our expenses for acquiring testing materials increased.

Finance costs

Finance costs mainly represent interest expense on bank loans. The increase in finance costs is a result of the increase interest rates and balances of bank loans during the Track Record Period.

Income tax expense

Our principal PRC subsidiary, Zhangping Kimura, applied and was approved for the High and New Technology Enterprise qualification under the PRC EIT Law and its relevant regulations in October 2010, and therefore is entitled to the preferential enterprise income tax rate of 15% for the financial years 2010, 2011 and 2012. Following the accreditation of Zhangping Kimura as a High and New Technology Enterprise, we have to submit our financial statements together with details of our research and development activities and other technological innovation activities to the local tax

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authority and other relevant authorities for the annual review to enjoy the 15% preferential tax treatment. Our renewal of High and New Technology Enterprise accreditation will be on a 3 year basis after the expiry in 2012. Our another PRC subsidiary, Merry Garden Wood Structure is subject to PRC enterprise income tax rate of 25%.

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2011 compared with the year ended 31 December 2010

Turnover

Our total turnover increased by approximately RMB107.6 million, or 53.9%, from approximately RMB199.6 million in 2010 to approximately RMB307.2 million in 2011. The majority of this increase is attributable to the increase in sales in the PRC market by approximately RMB73.2 million or 96.5% from approximately RMB75.8 million in 2010 to approximately RMB149.0 million in 2011.

The increase in overseas sales was driven by an increase in sales both in North America and Europe which was partly off-set by a drop in sales in Asia Pacific (exclusive of the PRC). The increase in sales in North America resulted from more orders being received from existing customers while the increase in sales in Europe resulted from our new customers in 2011.

In our product categories, our turnover from leisure household products increased by approximately RMB58.6 million, or 36.9%, from approximately RMB158.7 million in 2010 to approximately RMB217.3 million in 2011. The increase in leisure household products resulted from more orders from our existing customers, particularly recreational products and outdoor and indoor furniture.

Turnover from our timber villas, sheds and their related parts and structures product category increased by approximately RMB45.5 million, or 127.5%, from approximately RMB35.8 million in 2010 to approximately RMB81.3 million in 2011.

Cost of sales

Our cost of sales increased by approximately RMB67.5 million, or 52.9%, from approximately RMB127.7 million in 2010 to approximately RMB195.2 million in 2011. The increase was mainly attributable to increases in the material costs and direct labour costs.

- **Materials consumed.** The cost of sales attributable to materials consumed increased by approximately RMB59.9 million, or 54.5%, from approximately RMB110.0 million in 2010 to approximately RMB169.9 million in 2011. The change was attributable to the increase in the quantity of key raw materials consumed and was in line with the increase in our total turnover by 53.9% and the increase in average unit price of our key raw materials such as timber during the same period.
- **Direct labour.** The cost of direct labour increased by approximately RMB3.8 million, or 41.6%, from approximately RMB9.3 million in 2010 to approximately RMB13.1 million in 2011. The change was attributable to the increase in the average number of direct labour we employed from 403 as at 31 December 2010 to 475 as at 31 December 2011.

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Gross profit and gross profit margin

Whilst the gross profit margin of OEM and ODM products maintained at similar level for the two years ended 31 December 2010 and 2011, the gross profit margin of the “Merry Garden 美丽家园” branded products improved from approximately 38.6% in 2010 to approximately 40.0% in 2011. This led to a slight overall increase in our gross profit margin from approximately 36.0% in 2010 to approximately 36.4% in 2011.

The OEM and ODM gross profit margin maintained at about the same level even though there was an increase in the raw materials because pricing of our products was based on a cost-plus method, thus the increase in the prices of our raw materials was passed onto the consumers.

The increase in profit of our “Merry Garden 美丽家园” branded products was due to the increase in direct sales made to end users in the year ended 31 December 2011 as profit was higher for sales made to end users.

As a result of the foregoing, our gross profit increased by approximately RMB40.0 million, or 55.7%, from approximately RMB71.9 million in 2010 to approximately RMB111.9 million in 2011.

Other revenue

Our other revenue increased by approximately RMB0.4 million, or 14.0%, from approximately RMB3.1 million in 2010 to approximately RMB3.5 million in 2011. The increase was mainly due to increase in government grant received in relation to our infrastructure development. The government grants received is recognised as deferred income on the combined balance sheets and amortised as other revenue on a systematic basis over the useful life of the relevant assets.

Other net income/(loss)

Our other net income decreased by approximately RMB3.6 million, from a net income of approximately RMB1.9 million in 2010 to a net loss of approximately RMB1.7 million in 2011. The decrease was mainly due to the changes in fair value of derivative financial instruments from gain of approximately RMB4.2 million in 2010 to loss of approximately RMB0.2 million in 2011.

Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB3.7 million, or 68.0%, from approximately RMB5.5 million in 2010 to approximately RMB9.2 million in 2011. This increase of selling and distribution expenses was mainly attributable to the increase of delivery charges, port expenses, and advertising expenses. The increase in delivery charges was due to the increase in overseas sales from approximately RMB123.8 million in 2010 to approximately RMB158.2 million in 2011 and the increase in sales made for a customer in the PRC that involved payments of delivery charges from approximately RMB17.3 million in 2010 to RMB40.8 million in 2011. The increase in port expenses was due to the increase of expenses incurred at shipping ports as overseas sales increased. The increase in advertising expenses was a result of our increased advertising activities in promoting our brand. The percentage increase of the selling and distribution expenses is consistent with the increase of our overseas sales, the increase in sales made in the PRC that involved payment of delivery charges and the increase of advertising expenses.

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Administrative expenses

Administrative expenses increased by approximately RMB13.0 million, or 195.0%, from approximately RMB6.7 million in 2010 to approximately RMB19.7 million in 2011. The increase in administrative expenses was mainly due to increase in staff costs by approximately RMB3.6 million as a result of the increase in headcount from 59 in 2010 to 91 in 2011 and expansion of our research and development department and the increase in professional fees in connection with the proposed Listing.

The increase in other administrative expenses was mainly due to increases in other taxes paid such as urban maintenance and construction tax as well as miscellaneous expenses such as office expenses and travelling expenses.

Finance costs

Finance costs increased by approximately RMB2.5 million, or 190.7%, from approximately RMB1.3 million in 2010 to approximately RMB3.8 million in 2011. The increase was mainly due to the increase in the effective interest rate and the increase in the average bank borrowings in 2011.

Income tax

Income tax expenses increased by approximately RMB0.1 million, or 0.7%, from approximately RMB10.3 million in 2010 to RMB10.4 million in 2011, while our effective tax rate decreased from 16.2% in 2010 to 12.8% in 2011. Our principal subsidiary, Zhangping Kimura, is entitled to a preferential tax rate of 15% for the financial years 2010, 2011 and 2012 as it qualified as a High and New Technology Enterprise in the PRC. Our lower effective tax rate in 2011 was because we enjoyed a 50% deduction over our qualified research and development expenses in 2011. As advised by our PRC Legal Adviser, according to the current applicable PRC laws and regulations, there is no legal impediment for Zhangping Kimura to renew its High and New Technology enterprise accreditation after its expiry in 2012, and the Directors are of the view that Zhangping Kimura should be able to renew its High and New Technology enterprise accreditation.

Profit for the year

As a result for the above factors, profit for the year increased by approximately RMB17.6 million, or 33.1%, from approximately RMB53.1 million in 2010 to RMB70.7 million in 2011.

Year ended 31 December 2010 compared with the year ended 31 December 2009

Turnover

Our turnover from leisure household products increased by approximately RMB66.0 million, or 71.2%, from approximately RMB92.7 million in 2009 to RMB158.7 million in 2010. Our turnover from timber villas, sheds and their related parts and structure increased by approximately RMB18.4 million, or 106.1%, from approximately RMB17.4 million in 2009 to RMB35.8 million in 2010. The increase was mainly attributable to (i) our strengthened domestic sales in 2010 as a result of which we had 4 new distributors in 2010 and we participated in more projects in the PRC; (ii) we developed

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and launched an average of more than 120 new and modified products per annum, including new products and enhanced or modified version of our existing products; and (iii) our selling price also increased during the two years as a result of the launch of new products and enhanced or modified products.

Our turnover from overseas sales increased by approximately RMB13.8 million or 12.6% from approximately RMB110.0 million in 2009 to RMB123.8 million in 2010. The increase was mainly due to the increase in demand from overseas customers on our products and the increase in new customers from 23 in 2009 to 33 in 2010, respectively.

Our total turnover increased by approximately RMB89.6 million, or 81.4%, from approximately RMB110.0 million in 2009 to RMB199.6 million in 2010.

Cost of sales

Our cost of sales increased by approximately RMB47.1 million, or 58.5%, from approximately RMB80.6 million in 2009 to approximately RMB127.7 million in 2010. The increase was mainly attributable to increases in the material costs and direct labour costs.

- **Materials consumed.** The cost of sales attributable to materials consumed increased by approximately RMB44.3 million, or 67.4%, from approximately RMB65.7 million in 2009 to approximately RMB110.0 million in 2010. The change was attributable to the increase in the quantity of key raw materials consumed and was in line with the increase in our total turnover by 81.4% and the increase in average unit price of our key raw materials such as timber during the same period, the effect, however, was set off by the increase in utilisation rate as a result of advanced technology and the new improved or modified design of our products.
- **Direct labour.** The cost of direct labour increased by approximately RMB2.8 million, or 43.6%, from approximately RMB6.5 million in 2009 to approximately RMB9.3 million in 2010. The change was attributable to the increase in the number of direct labour we employed from 318 as at 31 December 2009 to 403 as at 31 December 2010.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by approximately RMB42.4 million, or 144.0%, from approximately RMB29.5 million in 2009 to approximately RMB71.9 million in 2010, and our gross profit margin increased from 26.8% in 2009 to 36.0% in 2010.

Gross profit increased along with both increases in sales and increase in gross profit margin. The improvement in gross profit margin from 2009 to 2010 was the result of (i) successful costs reduction measures implemented in 2010 including introduction of advanced automatic machineries such as advance pressure tank and a set of machineries which could combine the leftovers of timbers and boards and improved or modified design of our products which enabled us to increase the utilisation rate (which contributed to cost savings that amounted to 1.4% of gross profit margin in 2010); (ii) our increased direct sale to end-users in 2010 as a result of our policy to strengthen our domestic sales in 2010; (iii) our increase in product portfolio during the two years in which our new designs enabled us to achieve a higher profit margin.

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Other revenue

Our other revenue increased by approximately RMB0.1 million, or 1.7%, from approximately RMB3.0 million in 2009 to approximately RMB3.1 million in 2010. The increase was mainly due to the increase of interest income of bank deposits.

Other net income/(loss)

Our other net income increased by approximately RMB1.8 million, from approximately RMB0.1 million in 2009 to approximately RMB1.9 million in 2010. The increase was mainly due to our gain from foreign exchange forward contracts.

Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB1.0 million, or 22.6%, from approximately RMB4.5 million in 2009 to approximately RMB5.5 million in 2010. This increase of selling and distribution expenses was mainly attributable to the increase of delivery charges and port expenses as overseas sales increased. The increase in delivery charges was due to the increase in sales made in the PRC that involved payment of delivery charges from RMBnil in 2009 to approximately RMB17.3 million in 2010. The increase in port expenses was due to the increase in expenses incurred at shipping ports as overseas sales increased from approximately RMB110.0 million in 2009 to approximately RMB123.8 million in 2010. The percentage increase of the selling and distribution expenses is consistent with the increase of our overseas sales as well as sales made in the PRC that involved payment of delivery charges.

Administrative expenses

Administrative expenses increased by approximately RMB1.8 million, or 36.2%, from approximately RMB4.9 million in 2009 to approximately RMB6.7 million in 2010. The increase in administrative expenses was mainly due to increase in staff costs by approximately RMB1.0 million as a result of the increase in headcount from 46 in 2009 to 59 in 2010.

Finance costs

Finance costs increased by approximately RMB0.1 million, or 8.7%, from approximately RMB1.2 million in 2009 to approximately RMB1.3 million in 2010. The increase was mainly due to the increase in the effective interest rate and the increase in the bank loans from approximately RMB21.3 million in 2009 to approximately RMB47.0 million in 2010.

Income tax

Income tax expenses increased by approximately RMB4.7 million, or 84.5%, from approximately RMB5.6 million in 2009 to approximately RMB10.3 million in 2010. The increase was mainly due to an increase in taxable income in 2010. Our effective tax rate decrease from 25.4% in 2009 to 16.2% in 2010. The lower effective tax rate in 2010 was because our major operating subsidiary, Zhangping Kimura is entitled to a preferential tax rate of 15% for the financial years 2010, 2011 and 2012.

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Profit for the year

As a result for the above factors, particularly the improvement in our gross profit margin, profit for the year increased by approximately RMB36.7 million, or 224.1%, from approximately RMB16.4 million in 2009 to approximately RMB53.1 million in 2010.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we have met our working capital needs primarily through cash flow from operating activities, bank loans and the use of trade and other payables. Our primary uses of cash are for our working capital needs and capital expenditures.

Upon the completion of the Global Offering, we expect to meet our working capital needs primarily through cash flows from operating activities, bank loans, the use of trade and other payables and the net proceeds to our Company from the Global Offering. We are satisfied after due and careful inquiry that we have available sufficient working capital for the present requirements, which is for at least the next 12 months from the date of this prospectus.

Cash flows

The following table presents the cash flows during the Track Record Period:

| | Years ended 31 December | | |
|--|-------------------------|---------------------|---------------------|
| | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 |
| Net cash generated from/(used in) operating activities | 555 | (11,826) | 61,541 |
| Net cash used in investing activities | (5,965) | (13,114) | (51,258) |
| Net cash generated from/(used in) financing activities | <u>5,457</u> | <u>25,279</u> | <u>(4,649)</u> |
| Net increase in cash and cash equivalents | 47 | 339 | 5,634 |
| Effect of foreign exchange rate changes | (2) | (99) | (16) |
| Cash and cash equivalents at beginning of the year | <u>2,299</u> | <u>2,344</u> | <u>2,584</u> |
| Cash and cash equivalents at the end of the year | <u><u>2,344</u></u> | <u><u>2,584</u></u> | <u><u>8,202</u></u> |

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Cash flows from/used in operating activities

Our cash from/used in operating activities reflects profit before taxation for the year, adjusted for (i) interest expense; (ii) non-cash items such as depreciation of property, plant and equipment, amortisation of lease prepayments; (iii) net gain/loss on foreign exchange; (iv) interest income on bank deposits; and (v) changes in fair value of derivative financial instruments; (vi) net loss on disposal of property, plant and equipment and (vii) net changes in working capital.

We had a net cash generated from operating activities of approximately RMB61.5 million for the year ended 31 December 2011, primarily resulting from cash generated from operations of approximately RMB70.0 million, offset by income tax payment of approximately RMB8.5 million. Our cash generated from operations consisted of cash flow from operating activities of approximately RMB91.0 million before net negative changes in working capital of approximately RMB21.0 million. Our negative changes in working capital primarily due to (i) an increase in trade and other receivables of approximately RMB20.1 million, and (ii) a decrease in trade and other payables of approximately RMB2.7 million; offset by the decrease in pledged deposit of approximately RMB1.6 million. The increase in trade and other receivables primarily reflected our increase in sales. The decrease in trade and other payables as well as the decrease in inventories primarily reflected our strategy to reduce inventories level by using prepayments to the suppliers to secure their steady supply of raw materials in terms of both quantity and price. The increase in deferred income primarily reflected the receipt of government grants related to our construction project relating to existing production facility.

We had a net cash used in operating activities of approximately RMB11.8 million in 2010, primarily resulting from cash used in operations of approximately RMB6.8 million and income tax paid of approximately RMB5.0 million. Our cash used in operations consisted of cash flow from operating activities of approximately RMB63.9 million before net negative changes in working capital of approximately RMB70.7 million. Net negative changes in working capital primarily consisted of (i) an increase in inventories of approximately RMB6.8 million, (ii) an increase in trade and other receivables of approximately RMB57.1 million, (iii) a decrease in trade and other payables of approximately RMB5.5 million, and (iv) an increase in pledged deposits of approximately RMB1.3 million. The increase in inventories primarily reflects our expectation in the increase in sales. The increase in trade and other receivables primarily reflect the increase in domestic sales which generally have longer credit terms than overseas sales. The decrease in trade and other payables is primarily because we made more prepayments to our raw material suppliers in order to fix our purchase price.

We had a net cash generated from operating activities of approximately RMB0.5 million in 2009, primarily resulting from cash generated from operations of approximately RMB0.8 million, partly offset by income tax paid of approximately RMB0.3 million. Our cash generated from operations consisted of cash flow from operating activities of approximately RMB23.3 million before net negative changes in working capital of approximately RMB22.4 million. Net negative changes in working capital primarily consisted of an increase in inventories of approximately RMB33.5 million and an increase in pledged deposits of approximately RMB0.7 million, and the effects of which were partially offset by (i) a decrease in trade and other receivables of approximately RMB2.9 million, and (ii) an increase in trade and other payables of approximately RMB8.8 million. The increase in inventory primarily reflected our expectation in the increase in sales. The decrease in trade and other receivables primarily reflected decrease in turnover in 2008. The increase in trade and other payables primarily involved the increase in purchase of key raw materials for the planned development of business in domestic market.

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Cash flows used in investing activities

Our cash outflows from investing activities during the Track Record Period mainly consisted of purchase of property, plant and equipment. Our cash inflows from investing activities during the Track Record Period mainly consisted of government grants received to subsidise capital expenditures, interest received and proceeds for disposal of property, plant and equipment.

We had a net cash outflow from investing activities of approximately RMB51.3 million for the year ended 31 December 2011, primarily resulting from payment for the purchase of property, plant and equipment of approximately RMB38.4 million, payment for lease prepayments for the land use rights of our production facility of approximately RMB31.3 million offset by receipts of government grants of approximately RMB18.0 million.

We had a net cash outflow from investing activities of approximately RMB13.1 million in 2010, primarily resulting from payment for the purchase of property, plant and equipment of approximately RMB10.7 million and payment for our investment in other financial assets of approximately RMB2.5 million.

We had a net cash outflow from investing activities of approximately RMB6.0 million in 2009, primarily resulting from payment for the purchase of property, plant and equipment.

Cash flow from/used in financing activities

Our cash from/used in financing activities during the Track Record Period consisted of proceeds from new bank loans, whilst our cash outflows from financing activities during the Track Record Period mainly consisted of repayment of bank loans, interest paid, and changes in amount due to a director.

We had a net cash outflow from financing activities of approximately RMB4.6 million for the year ended 31 December 2011, primarily resulting from proceeds from new bank loans of approximately RMB143.3 million offset by repayment of bank loans of approximately RMB104.4 million, interest payment of approximately RMB4.8 million and settlement paid to a director of approximately RMB38.7 million.

We had a net cash inflow from financing activities of approximately RMB25.3 million in 2010, primarily resulting from proceeds from new bank loans of approximately RMB56.0 million and changes in amount due to a director of approximately RMB1.3 million, the effects of which were partially offset by repayment of bank loans of approximately RMB30.2 million and interest paid of approximately RMB1.8 million.

We had a net cash inflow from financing activities of approximately RMB5.5 million in 2009, primarily resulting from proceeds from new bank loans of approximately RMB24.1 million and changes in amount due to a director of approximately RMB2.4 million, the effects of which were partially offset by repayment of bank loans of approximately RMB19.7 million and interest paid of approximately RMB1.3 million.

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CAPITAL EXPENDITURES

Our capital expenditures were approximately RMB16.4 million, RMB6.5 million and RMB43.8 million for the years ended 31 December 2009, 2010 and 2011, respectively.

The following table sets forth, for the periods indicated, our capital expenditures.

| | Years ended 31 December | | |
|-------------------------------|-------------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Property, plant and equipment | 952 | 2,419 | 32,435 |
| Construction in progress | <u>15,461</u> | <u>4,093</u> | <u>11,399</u> |
| | <u>16,413</u> | <u>6,512</u> | <u>43,834</u> |

Capital expenditures for the purchase of property, plant and equipment during the Track Record Period primarily went towards the expansion of our production capacity. Capital expenditures for construction in progress during the Track Record Period primarily due to the construction of new production plants and additions of new production lines.

We may incur additional capital expenditures from time to time as we pursue new opportunities to expand our production capacities, and actual expenditures may differ significantly from our current plans. Our planned capital expenditure projects may also be changed due to changes in business plans such as potential acquisitions, individual project progress, and market conditions and outlook. Further, our ability to obtain sufficient funding for our planned capital expenditure projects in the future is subject to a variety of uncertainties, including our future results of operations, financial condition and cash flows, economic, political and other condition in the PRC, Hong Kong and other jurisdictions in which we may operate.

Should any financing need arise in the future, our Directors expect to finance with internal resources, unutilised banking facilities and/or debt or equity financing.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

We entered into a number of foreign currency forward contracts during the Track Record Period to manage our exchange rate exposure pursuant to our hedging policy. It is our hedging policy to enter into foreign currency forward contracts to reduce our exchange rate exposure stemming from anticipated future cash flows denominated in foreign currencies. Our Group decided not to adopt hedge accounting as the criteria (including no formal designation and documentation of the hedging relationship) for hedge accounting as required by IAS 39 are not met. Foreign currency forward contracts are recognised initially at fair value. At the end of each balance sheet date the fair value is remeasured and the gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

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The approval from any two of our executive Directors is typically required before we enter into hedging transactions such as foreign exchange forward contracts. We only entered into foreign currency forward contracts with major state-owned banks in the PRC. We believe that the risk of default under these foreign currency forward contracts is remote.

Please refer to the paragraphs headed “Currency Risk” in this section for more information about the internal control procedures and quantitative analysis over our hedging activities.

WORKING CAPITAL

Taking into account of the net proceeds available to us from the Global Offering, our cash at bank and in hand, our available banking facilities and our future operating cash flows, our Directors are of the opinion that we have sufficient working capital to meet our requirements for at least the next 12 months from the date of this prospectus.

NET CURRENT ASSETS/(LIABILITIES)

The table below sets forth, as of the dates indicated, our current assets, current liabilities and net current assets/(liabilities):

| | At 31 December | | At 30 April | |
|---|----------------|----------------|----------------|----------------|
| | 2009 | 2010 | 2011 | 2012 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Current assets | | | | |
| Inventories | 45,059 | 51,869 | 51,672 | 58,552 |
| Current portion of lease prepayments | 183 | 183 | 812 | 812 |
| Trade and other receivables | 19,179 | 75,694 | 94,676 | 112,909 |
| Pledged deposits | 1,222 | 2,483 | 847 | 531 |
| Cash and cash equivalents | <u>2,344</u> | <u>2,584</u> | <u>8,202</u> | <u>24,249</u> |
| | 67,987 | 132,813 | 156,209 | 197,053 |
| | ----- | ----- | ----- | ----- |
| Current liabilities | | | | |
| Trade and other payables | 45,780 | 58,147 | 16,133 | 22,714 |
| Bank loans | 21,250 | 47,000 | 85,797 | 85,950 |
| Current portion of deferred income | 19 | 19 | 920 | 1,403 |
| Current taxation | <u>4,983</u> | <u>9,216</u> | <u>15,799</u> | <u>17,500</u> |
| | 72,032 | 114,382 | 118,649 | 127,567 |
| | ----- | ----- | ----- | ----- |
| Net current (liabilities)/assets | <u>(4,045)</u> | <u>18,431</u> | <u>37,560</u> | <u>69,486</u> |

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Our net current assets increased from approximately RMB37.6 million as of 31 December 2011 to approximately RMB69.5 million as of 30 April 2012. The increase was mainly due to an increase in cash and cash equivalents from our operating cash inflow.

Our net current assets increased from approximately RMB18.4 million as of 31 December 2010 to approximately RMB37.6 million as of 31 December 2011. The increase was mainly due to a decrease in trade and other payables of approximately RMB42.0 million and an increase in trade and other receivables of approximately RMB19.0 million, partially offset by an increase in bank loans of approximately RMB38.8 million. We maintained a higher level of bank loans to satisfy the cashflow needed for our expansion plan and daily operating cashflow.

Our net current assets/(liabilities) increased from a net current liabilities of approximately RMB(4.0) million as of 31 December 2009 to a net current assets approximately RMB18.4 million as of 31 December 2010. We were at a net current liabilities position as at 31 December 2009 because we had financed our purchase of property, plant and equipment with short-term bank loans. The increase in current asset was mainly due to an increase in trade and other receivables of approximately RMB56.5 million and an increase of inventories of approximately RMB6.8 million. The effects of foregoing factors, however, were partially offset by an increase in trade and other payables of approximately RMB12.4 million, an increase in bank loans of approximately RMB25.8 million and an increase in current taxation of approximately RMB4.2 million.

Trade and other receivables

The following table sets forth, as of the dates indicated, trade and other receivables:

| | At 31 December | | |
|---|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade receivables | 8,912 | 43,616 | 81,892 |
| Deposits and prepayments | 5,959 | 22,204 | 9,516 |
| Amounts due from related companies | — | 7,329 | 508 |
| Amount due from a director | — | — | 480 |
| Derivative financial instruments | 546 | 521 | 305 |
| Gross amount due from customers for contract work | — | 1,091 | 276 |
| Other receivables | <u>3,762</u> | <u>933</u> | <u>1,699</u> |
| | <u>19,179</u> | <u>75,694</u> | <u>94,676</u> |

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Our trade and other receivables primarily represented trade receivables, guarantee deposits in relation to bank loans and prepayments to suppliers. Our trade and other receivables increased from approximately RMB19.2 million as of 31 December 2009 to approximately RMB75.7 million as of 31 December 2010, primarily reflecting the increase in sales, particularly in the domestic sales which generally have longer credit terms than overseas sales. Our trade and other receivables increased from approximately RMB75.7 million as of 31 December 2010 to approximately RMB94.7 million as of 31 December 2011, primarily reflecting the increase in domestic sales.

We offer 15 to 60 days of credit to export sales customers with good trading history and offer 30 to 90 days of credit to the existing domestic sales customers. On the other hand, our overseas customers usually settle trade receivable by letter of credit which generally has a short settlement period, therefore, the credit terms we offer to overseas customers are comparably shorter.

The amounts due from related companies as at 31 December 2011 were arisen from sales of our products to the relevant related companies under normal commercial terms. They are expected to be settled according to their respective credit terms and our Group will have ongoing transactions with these companies.

The following table sets forth, for the periods indicated, our average trade receivables turnover days:

| | Years ended 31 December | | |
|---|-------------------------|-----------|-----------|
| | 2009 | 2010 | 2011 |
| Average trade receivables turnover days ^(Note) | <u>30</u> | <u>45</u> | <u>69</u> |

Note: Average trade receivables turnover days is equal to the average of the starting and ending trade receivables balance of the year divided by turnover (include 17% VAT for domestic sales) and multiplied by 365 days.

The increasing trend in average trade receivables turnover days during the Track Record Period primarily reflected the increase in the domestic sales which generally have longer credit terms than overseas sales.

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The following table sets forth, as of the dates indicated, an aging analysis of our trade receivables:

| | At 31 December | | |
|---|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Current | 7,709 | 38,708 | 73,040 |
| | ----- | ----- | ----- |
| Less than 1 month past due | 587 | 1,925 | 7,616 |
| 1 to 3 months past due | 218 | 1,674 | 239 |
| More than 3 months but less than 12 months past due | 260 | 1,174 | 997 |
| More than 12 months past due | 138 | 135 | — |
| | ----- | ----- | ----- |
| Amounts past due | 1,203 | 4,908 | 8,852 |
| | ----- | ----- | ----- |
| | <u>8,912</u> | <u>43,616</u> | <u>81,892</u> |

The increase in the trade receivables past due is a result of our increase in sales to domestic customers which have a longer credit period compared to overseas customers. While there is no history of default for these customers, we consider no provision is necessary.

As at 30 April 2012, approximately RMB77.1 million of the total trade receivables as at 31 December 2011 have been subsequently settled, representing approximately 94.2% of the outstanding trade receivables as at 31 December 2011. Out of which approximately RMB8.0 million was settled for trade receivables which has been past due as at 31 December 2011, representing approximately 90.9% of the total past due balance. Of the remaining balance of approximately RMB0.7 million was due to the delay of a construction project of one of our customers. It is expected that this balance will be settled by June 2012. The Directors confirm that there is no dispute with this customer on the products sold by us or the outstanding trade receivables.

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Trade and other payables

The following table sets forth, as of the dates indicated, our trade and other payables:

| | At 31 December | | |
|--|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade payables | 17,732 | 13,348 | 9,723 |
| Amount due to the Ultimate Controlling Shareholder | 16,793 | 39,124 | 443 |
| Amounts due to related companies | 882 | — | — |
| Receipts in advance | 16 | 1,541 | 167 |
| Payables for the purchase of property, plant and equipment | 3,400 | 2 | 919 |
| Derivative financial instruments | 4,267 | 55 | — |
| Other payables and accruals | <u>2,690</u> | <u>4,077</u> | <u>4,881</u> |
| | <u>45,780</u> | <u>58,147</u> | <u>16,133</u> |

Trade payables primarily related to the purchases of raw materials from our suppliers. Other payables and accruals mainly consisted of salaries, wages, bonus and other accrued benefits and other tax payables.

Our aggregate trade and other payables increased from approximately RMB45.8 million as of 31 December 2009 to approximately RMB58.1 million as of 31 December 2010, primarily reflecting the financing provided by Mr. Wu, in respect of the increase in the registered capital of Zhangping Kimura of approximately RMB9.2 million and the payment made by Mr. Wu on behalf of King Wood for the transfer of equity interest in Zhangping Kimura to King Wood of approximately RMB21.0 million in August 2010, details of which can be found in the section headed “Company History and Reorganisation” of this prospectus, which offset the decrease in trade payables. Our aggregate trade and other payables decreased from approximately RMB58.1 million as of 31 December 2010 to approximately RMB16.1 million as of 31 December 2011, primarily due to the reduction in the amount due to Mr. Wu.

The credit period granted by its domestic suppliers is generally 30 to 90 days.

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The following table sets forth, for the periods indicated, our average trade payables turnover days:

| | Years ended 31 December | | |
|--|--------------------------------|-------------|-------------|
| | 2009 | 2010 | 2011 |
| Average trade payables turnover days <i>(Note)</i> | <u>52</u> | <u>49</u> | <u>25</u> |

Note: Average trade payables turnover days is equal to the average of the starting and ending of trade payables balance of the year divided by purchase of inventories consumed for the relevant period and multiplying by 365 days.

The decreasing trend in our average trade payables turnover days during the Track Record Period was mainly affected by the increase in prepayment made to the suppliers reflecting our policy to reduce inventories level by using prepayments to the suppliers to secure their steady supply of raw materials in terms of both quantity and price.

Since 30 September 2011, we repaid a significant portion of the amount due to the Controlling Shareholder(s) by using its operating cash flow. As at 31 December 2011, the outstanding balance due to the Controlling Shareholders amounted to approximately RMB0.4 million. Based on the above, the Directors consider that we are able to repay the remaining balance through its operating cash flow before the Listing.

The following table sets forth, as of the dates indicated, an aging analysis of trade payables:

| | At 31 December | | |
|---------------------------------------|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Due within 1 month or on demand | 10,351 | 9,746 | 2,893 |
| Due after 1 month but within 3 months | <u>7,381</u> | <u>3,602</u> | <u>6,830</u> |
| | <u>17,732</u> | <u>13,348</u> | <u>9,723</u> |

As at 30 April 2012, approximately RMB9.2 million of total trade payables as at 31 December 2011 have been subsequently settled.

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Inventories

The following table sets forth, as of the dates indicated, a summary of our balance of inventories:

| | At 31 December | | |
|------------------------|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Raw materials | 38,722 | 39,057 | 19,644 |
| Semi-finished products | 3,054 | 3,218 | 21,073 |
| Finished goods | <u>3,283</u> | <u>9,594</u> | <u>10,955</u> |
| | <u>45,059</u> | <u>51,869</u> | <u>51,672</u> |

Our inventories increased from approximately RMB45.1 million as of 31 December 2009 to approximately RMB51.9 million as of 31 December 2010, primarily reflecting our expectation in an increase in sales. Our inventories decreased from approximately RMB51.9 million as of 31 December 2010 to approximately RMB51.7 million as of 31 December 2011, primarily reflecting our strategy to reduce inventories level by using prepayments to the suppliers to secure their steady supply of raw materials in terms of both quantity and price.

Our inventory level of semi-finished products increased from approximately RMB3.2 million as at 31 December 2010 to approximately RMB21.1 million as at 31 December 2011. This increase was mainly attributable to a number of our orders to be shipped in the first quarter of 2012.

The following table sets forth, for the periods indicated, our average inventory turnover days:

| | Years ended 31 December | | |
|---|--------------------------------|-------------|-------------|
| | 2009 | 2010 | 2011 |
| Average inventory turnover days ^(Note) | <u>128</u> | <u>139</u> | <u>97</u> |

Note: Average inventory turnover days equal the average inventory divided by cost of sales multiplied by 365 days. Average inventory is the inventory at the beginning of the period plus the inventory at the end of the period with the sum divided by two.

We increased our raw materials procurement in 2010 to satisfy our enlarged production plan for our plan to enter into the PRC market. Such increase in raw materials procurement resulted an increase in average inventory turnover days during the same period.

Our inventory turnover days decreased in 2011 reflecting our strategy to reduce inventories level by using prepayments to the suppliers to secure their steady supply of raw materials in terms of both quantity and price.

As at 30 April 2012, approximately RMB50.3 million of the inventories as at 31 December 2011 have been subsequently utilised or sold.

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INDEBTEDNESS

Borrowings

All of our borrowings were due within one year and were denominated in RMB and US dollars. The table below sets forth, as of the dates indicated, our bank loans:

| | At 31 December | | |
|-------------|----------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Bank loans | | | |
| — secured | 13,850 | 12,900 | 65,918 |
| — unsecured | <u>7,400</u> | <u>34,100</u> | <u>19,879</u> |
| | <u>21,250</u> | <u>47,000</u> | <u>85,797</u> |

We expanded new production lines each year during the Track Record Period. In 2009, we installed a production line that mainly produces leisure household products. As at 31 December 2009, we experienced a net current liabilities position at approximately RMB4.0 million because we utilised bank loans to finance the purchase of property, plant and equipment for our production line expansion.

Subsequently in 2010 and 2011, we also increased one production line each year that mainly produces timber villas, sheds and their related parts and structures. A higher level of bank borrowings was utilised in 2011 for the purchase of land use rights of our production facility.

At 31 December 2009, 2010 and 2011, certain of our utilised banking facilities were secured by pledged deposits, buildings and land use rights of our Group. For further information of the availability of our banking facilities and the securities provided by our Group in respect of our bank borrowings, please see note 20(c) of “Notes to the Financial Information” in Appendix I to this prospectus.

At 31 December 2009, 2010 and 2011, certain of the our utilised banking facilities were secured by personal guarantee from Mr. Wu at nil fee, corporate guarantee from Longyan Jingyan Wood Industry Co, Ltd. and Zhangping Jiupengxi Ecological Tourism Development Company Limited, which are controlled by Mr. Wu, at nil fee and personal properties owned by Mr. Wu, Mr. Wu Dongping, Mr. Wu Jiao Lan, mother of Mr. Wu, Ms. Liu Ying Yan, spouse of Mr. Wu and Mr. Han Jin, brother-in-law of Mr. Wu at nil fee.

At 31 December 2009, 2010 and 2011, certain of our utilised banking facilities were guaranteed by third party guarantee companies, which charge guarantee fees to us and require us to place guarantee deposits and Mr. Wu to provide back-to-back guarantee to them. Such guarantee deposits were all contributed by us. For further information, please see note 16(i) of “Notes to the Financial Information” in Appendix I to this prospectus.

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Our PRC Legal Adviser is of the view that although relevant PRC Lending Rules provide that “enterprise shall not violate the state regulations by conducting the lending and borrowing or the converted financing business of lending and borrowing among each other”, the placing of deposits with guarantee companies in return for their guarantee services of our Group shall not be deemed as conducting the lending and borrowing or the converted financing business of lending and borrowing and thus our Group is not violation of the prohibitive provisions of the PRC Lending Rules.

We have not committed any material defaults in payment of trade and non-trade payables and bank borrowings, and/or breaches of the finance covenants during the Track Record Period.

As of 30 April 2012, being the latest practicable date for the purpose of this indebtedness statement in this prospectus, our total indebtedness amounted to approximately RMB86.0 million, consisting of short-term bank loans of approximately RMB66.0 million secured by our buildings and land use rights and short-term unsecured bank loans of approximately RMB20.0 million. Besides, approximately RMB34.7 million of such bank loans were also secured by personal guarantee from Mr. Wu and Ms. Liu Yingyai at nil fee and guaranteed by third party guarantee companies which charge guarantee fees to our Group and require Mr. Wu to provide back-to-back guarantee. Such personal guarantee from Mr. Wu and/or Ms. Lin Yingyai will be released upon Listing. The above bank loans are all denominated in RMB or USD. The Directors confirm that there has not been any material change in our indebtedness since 30 April 2012.

As of 30 April 2012, our Group had unutilised banking facilities of approximately RMB68.8 million. To utilise such banking facilities, our Group is required to comply with certain borrowing covenants such as restricting our Group to act as guarantor for other parties, all of which are commonly found in lending arrangements with financial institutions. Among the unutilised banking facilities, for approximately RMB2.5 million of such unutilised banking facilities, the borrowing entity of our Group needs to achieve (i) an asset-liability ratio of not less than 65% for more than 3 months and (ii) a liquidity ratio of not less than 80% at any time during the borrowing period.

Financial ratios

The following table sets forth, as of the dates indicated, our current ratios and gearing ratios:

| | At 31 December | | At 30 April | |
|------------------------------|----------------|--------|-------------|--------|
| | 2009 | 2010 | 2011 | 2012 |
| Current ratio ⁽¹⁾ | 94.4% | 116.1% | 131.7% | 154.5% |
| Gearing ratio ⁽²⁾ | 45.1% | 59.7% | 52.9% | 33.7% |

Notes:

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

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

The current ratio improved from 94.4% in 2009 to 116.1% in 2010 and further increased to 131.7% in 2011 and 154.5% as at 30 April 2012 was attributable to the increase in our net working capital resulted from our operating profit.

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The increase in gearing ratio from 2009 to 2010 is a result of our increase bank loans for financing of our purchase of property, plant and equipment and payment for lease prepayments. The decrease in gearing ratio from 2010 to 30 April 2012 is a result of increase in total equity attributable to profit for the year.

COMMITMENTS

Capital commitments

Capital commitments outstanding at 31 December 2009, 2010 and 2011 and 30 April 2012 not provided for in our combined financial information were as follows:

| | At 31 December | | | At 30 April |
|-----------------------------------|----------------|---------------|---------------|---------------|
| | 2009 | 2010 | 2011 | 2012 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Contracted for | 22,105 | 26,227 | 15,016 | 10,266 |
| Authorised but not contracted for | — | — | — | — |
| | <u>22,105</u> | <u>26,227</u> | <u>15,016</u> | <u>10,266</u> |

The capital commitments are related to our future expansion in production capacity.

CONTINGENT LIABILITIES

As of 31 December 2009, 2010 and 2011, we did not have any significant contingent liabilities and we confirm that as of the Latest Practicable Date there had been no material changes to our contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions or arrangements.

DISCLAIMERS

Save as disclosed in the section headed “Indebtedness” above, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as at 30 April 2012 (being the latest practicable date for the purpose of indebtedness statement). The Directors confirm that there has been no material change in our Group’s indebtedness since 30 April 2012.

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RELATED PARTY BALANCES

With respect to the related party transactions set out in the combined financial information of our Group included in the Accountants' Report in Appendix I to this prospectus, the Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms were no less favourable to our Group than terms available to Independent Third Parties and were fair and reasonable and in the interest of the Shareholders.

FINANCIAL RISKS

We are exposed to various types of financial risks in the normal course of business, including credit, liquidity, interest rate, currency, commodity price and inflation risks.

Credit risk

Our credit risk is primarily attributable to trade and other receivables and cash and cash equivalents. Management has a credit policy in place and the exposure to these credit risks is monitored on an ongoing basis.

In respect of cash and cash equivalents, we only place deposits with major financial institutions, which management believe are of high credit rating.

In respect of trade and other receivables, we usually require upfront payment for sales of goods to new customers. For export sales, we generally request settlement by letter of credit issued by financial institutions or by wire transfer for certain customers with good trading history. Individual credit evaluations are performed on all new customers requiring credit over a certain amount and are also performed on existing customers on a periodic basis. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and may take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are normally due within 15 to 90 days from the date of billing. Debtors with balances that are more than 1 year past due are requested to settle all outstanding balances before any further credit is granted. Normally, we do not obtain collateral from customers.

Our exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when we have significant exposure to individual customers. At 31 December 2009, 2010 and 2011, approximately 0%, 1% and 3%, respectively, of the total trade and other receivables was due from our largest customer and approximately 36%, 25% and 41%, respectively, was due from the five largest customers.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the combined balance sheets after deducting any impairment allowance. We do not provide any guarantees which would expose it to credit risk.

Further quantitative disclosures in respect of our exposure to credit risk arising from trade receivables are set out in note 16 of "Notes to the Financial Information" in Appendix I to this prospectus.

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Liquidity risk

Our policy is to regularly monitor our liquidity requirements to ensure that we maintain sufficient reserve of cash and adequate committed lines of funding from major banks and financial institutions to meet our liquidity requirements in the short and long term. For further quantitative information, please see note 26 of the Accountants' Report in Appendix I to this prospectus.

Interest rate risk

Our interest rate risk arises primarily from bank borrowings issued at variable or fixed rates that expose us to cash flow interest rate risk and fair value interest rate risk respectively. For further quantitative information, please see note 26 of the Accountants' Report in Appendix I to this prospectus.

At 31 December 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased our profit after tax and retained profits by approximately RMB0.6 million (annualised) (31 December 2009: RMBnil; 31 December 2010: RMB0.03 million). Other components of equity would not be affected by the changes in interest rates.

Currency risk

We are exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in US dollars and Euro, other than the functional currency of the entity to which they relate.

We match our sales and costs in terms of currency denomination by converting the sales proceeds denominated in other currencies to RMB at spot rates upon receipt or through entering of foreign currency forward contracts. For the years ended 31 December 2009, 2010 and 2011, sales proceeds denominated in RMB constituted approximately 0%, 30.7% and 64.2% of our costs and operational expenses denominated in RMB respectively.

We entered into foreign currency forward contracts in order to protect against movements of RMB against US dollars and Euro.

Our hedging contracts have been entered into to cover the forecasted sales receipts denominated in US dollars and Euro but not for speculations. Our management considered various factors including the amount and timing of sales receipt, future trends of US dollars and Euro, etc when deciding whether to enter into the hedging transactions. We mitigate our counterparty risks by transacting with state-owned commercial banks in the PRC only.

As at 31 December 2009, 2010 and 2011, our Group had entered into 12, 5 and 5 foreign currency forward contracts respectively.

With the increasing sales to North America and Europe during the Track Record Period, our Company has enhanced its internal control measures so that on a quarterly basis, the sales and marketing department and the procurement department would prepare forecasts of foreign currencies cash flow for the next twelve months based on (i) the sales orders and contracts received on hand; (ii) understanding of expected orders from customers; and (iii) estimated foreign currency payment for

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raw materials purchases. Our Company will also obtain quotations from major banks in the PRC on currency forward rate. The management will assess these information, the prevailing foreign currency exchange rate and forward contract open position, etc before entering into any hedging transactions.

The following table sets forth details of our Group's exposure to foreign currency as at 31 December 2009, 2010 and 2011:

| | Years ended 31 December | | | | | | | | | |
|-----------------------------|-------------------------|------------------------|------------------------|------------------------|-----------------------|------------------------|------------------------|-----------------------|--|--|
| | 2009 | | 2010 | | | 2011 | | | | |
| | US\$ <i>RMB'000</i> | Euro <i>RMB'000</i> | US\$ <i>RMB'000</i> | Euro <i>RMB'000</i> | RMB <i>RMB'000</i> | US\$ <i>RMB'000</i> | Euro <i>RMB'000</i> | RMB <i>RMB'000</i> | | |
| Trade and other receivables | 5,970 | 2,771 | 11,043 | 1,633 | — | 25,412 | 81 | — | | |
| Cash and cash equivalents | 45 | 1,078 | 20 | 177 | — | 534 | 1 | — | | |
| Bank loans | — | — | — | — | — | (3,697) | — | — | | |
| Trade and other payables | (16) | — | (9,388) | — | (21,000) | (8,863) | — | (21,000) | | |
| | <u>5,999</u> | <u>3,849</u> | <u>1,675</u> | <u>1,810</u> | <u>(21,000)</u> | <u>13,386</u> | <u>82</u> | <u>(21,000)</u> | | |

Our trade and other receivables denominated in US dollars increased as a result of our increase in overseas sales in the year ended 31 December 2011 as compared to the same period in 2010. Our overseas sales increased from approximately RMB19.6 million in December 2010 to approximately RMB30.8 million in December 2011.

Our bank loans and trade and other payables in US dollars mainly arose from our imported purchases.

Our currency risk exposure derived from our trade and other payables recorded by King Wood which is denominated in RMB.

As of 31 December 2009, 2010 and 2011, we had forward exchange contracts with an unrealised gain of approximately RMB0.5 million, RMB0.5 million and RMB0.3 million and an unrealised loss of approximately RMB4.3 million, RMB0.1 million and RMBnil respectively.

Commodity price risk

The major raw materials used in the production of our products include spruce and pinewood. We are exposed to fluctuations in the prices of these raw materials which are influenced by the global market as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect our financial performance. We historically have not entered into any commodity derivative instruments to hedge the potential commodity price changes.

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DIVIDEND POLICY

No dividends have been declared or paid by our Company since its incorporation.

Declaration of dividends is subject to the discretion of the Directors, depending on our results of operations, working capital, cash position, future operations, and capital requirements, as well as any other factors which the Directors may consider relevant. In addition, any declaration and payment as well as the amount of dividend will be subject to the constitutional documents of our Company and the Cayman Companies Law. Any future declarations and payments of dividends may or may not reflect the historical declarations and payments of dividends of our Company and will be at the absolute discretion of the Directors. Under applicable PRC laws, each of our subsidiaries in the PRC may only distribute after-tax profits after it has made (i) allocations or allowances for recovery of accumulated losses and (ii) allocations to the statutory reserves.

Subject to the conditions set forth in the preceding paragraph, it is our Directors' current intention for the foreseeable future to recommend annually the distribution to Shareholders of not less than 30% of our Company's future annual net profits attributable to the shareholders as dividends after the Global Offering.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in the financial or trading position of our Company since 31 December 2011 (being the date to which our latest combined financial results were prepared as set out in the "Accountants' Report" in Appendix I to this prospectus).

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as of the Latest Practicable Date, there were no circumstances which, had they been required to comply with Rules 13.13 to 13.19 of the Hong Kong Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Hong Kong Listing Rules.

PROPERTY INTERESTS AND PROPERTY VALUATION

Particulars of our Company's property interests are set out in Appendix IV to this prospectus. Asset Appraisal Limited has valued the property interests of our Company as of 30 April 2012. A summary of values and valuation certificates issued by Asset Appraisal Limited are included in Appendix IV to this prospectus.

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The table below sets forth the reconciliation of the aggregate amount of net book value of our Group's property interests from our combined financial information as of 31 December 2011 to the valuation of property interests as of 30 April 2012:

| | <i>RMB'000</i> |
|--|----------------|
| Valuation of properties as of 30 April 2011 as set out in Appendix IV to this prospectus | <u>88,760</u> |
| Lease prepayments (<i>Note 1</i>) | 38,747 |
| Buildings (<i>Note 1</i>) | <u>55,258</u> |
| Net book value of property interests of our Group as at 31 December 2011 | 94,005 |
| Less: Depreciation and amortisation for the four months ended 30 April 2012 | <u>(1,287)</u> |
| Net book value of property interests of our Group as at 30 April 2012 | <u>92,718</u> |
| Valuation deficits (<i>Note 2</i>) | <u>3,958</u> |

Notes:

- (1) The net book values are extracted from the accountants' report set out in Appendix I to this prospectus.
- (2) Included in the buildings are certain wooden simple building structures with net book value of approximately RMB5.4 million as at 30 April 2012 which Asset Appraisal Limited has attributed no commercial value. According to Asset Appraisal Limited, the replacement cost of these building structures (excluding the land element) would be in the sum of approximately RMB5.4 million.

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UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of our Group is based on the combined net assets derived from the financial information of our Group as of 31 December 2011, as set out in Appendix I to this prospectus and adjusted as follows:

| | Combined net tangible assets of our Group as at 31 December 2011⁽¹⁾ RMB'000 | Estimated net proceeds from the Global Offering⁽²⁾ RMB'000 | Unaudited pro forma adjusted combined net tangible assets of our Group RMB'000 | Unaudited pro forma adjusted combined net tangible assets per Share⁽³⁾ RMB HK\$⁽⁴⁾ | |
|--|---|--|---|--|------|
| <i>Based on an Offer Price of HK\$1.00 per Share</i> | 146,594 | 121,948 | 268,542 | 0.27 | 0.33 |
| <i>Based on an Offer Price of HK\$1.15 per Share</i> | 146,594 | 143,180 | 289,774 | 0.29 | 0.36 |

Notes:

- (1) The combined net tangible assets of our Group as at 31 December 2011 have been calculated based on the combined net assets of our Group of RMB146.6 million as at 31 December 2011 extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Prices of HK\$1.00 and HK\$1.15 per Share (equivalent to RMB0.81 to RMB0.93 per Share at an exchange rate of HK\$1.00 to RMB0.8107), after deduction of the underwriting fees and other expenses related to the Global Offering payable by our Company. No account has been taken of the Shares which may fall to be issued upon the exercise of the Over-allotment Option.
- (3) The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,000,000,000 Shares are expected to be in issue following the Capitalisation Issue and Global Offering and the respective Offer Prices of HK\$1.00 and HK\$1.15, but takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option.
- (4) The unaudited pro forma adjusted combined net tangible assets per Share are converted into Hong Kong dollars at an exchange rate of HK\$1.00 to RMB0.8107. No representation is made that the RMB amounts have been, could have been or may be converted to Hong Kong dollars or vice versa, at that rate.

PROFIT FORECAST FOR THE SIX MONTHS ENDING 30 JUNE 2012

We forecast that, on the bases and assumptions set out in Appendix III to this prospectus and in the absence of unforeseen circumstances, the net profit attributable to owners of our Company for the six months ending 30 June 2012 is expected to be not less than RMB40.2 million.

Our Directors have prepared the forecast of the consolidated profit of our Company for the six months ending 30 June 2012 based on the unaudited consolidated results of our Group based on

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management accounts of our Group for the four months ended 30 April 2012 and a forecast of the consolidated results of our Group for the remaining two months ending 30 June 2012. We have undertaken to the Stock Exchange that our interim financial report for the six months ending 30 June 2012 will be audited pursuant to Rule 11.18 of the Listing Rules.

Our forecast consolidated profit of our Company for the six months ending 30 June 2012 shown above have been stated after deduction of such portion of the estimated offering expenses, being approximately RMB14.1 million, as we expect to be charged to our Company's consolidated statement of comprehensive income for the six months ending 30 June 2012.

The key factors underlying the profit forecast are the sales volume and the cost of raw materials. The sensitivity analysis below illustrates the impact of hypothetical changes in: (i) the sales volume of our Group and (ii) the raw material price (assuming there is no material change in other factors).

The following table illustrates the sensitivity of our forecasted net profit attributable to owners of our Company for the six months ending 30 June 2012 to the changes in our sales volume, assuming that all other factors remain unchanged:

| | +/-10% | +/-20% | +/-30% | +/-40% | +/-50% |
|---|------------------|------------------|------------------|------------------|------------------|
| | change in | change in | change in | change in | change in |
| | sales | sales | sales | sales | sales |
| | volume | volume | volume | volume | volume |
| Changes in forecasted net profit (RMB in thousand) | +/-3,128 | +/-6,257 | +/-9,385 | +/-12,513 | +/-15,641 |

The above sensitivity analysis assumed that there will be a corresponding change in cost of sales in response to change in sales volume.

The following table illustrates the sensitivity of our forecasted net profit attributable to owners of our Company for the six months ending 30 June 2012 to the changes in the average prices for raw materials, assuming that all other factors remain unchanged:

| | +/-10% | +/-20% | +/-30% | +/-40% | +/-50% |
|--|------------------|------------------|------------------|------------------|------------------|
| | change in | change in | change in | change in | change in |
| | average | average | average | average | average |
| | raw | raw | raw | raw | raw |
| | materials | materials | material | material | material |
| | price | price | price | price | price |
| Changes in forecasted net profit (RMB in thousand) | -/+4,334 | -/+8,668 | -/+13,002 | -/+17,336 | -/+21,670 |

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The above sensitivity analysis has not considered the adjustment of selling price to respond to the raw material price fluctuation. The Directors believe the actual fluctuation will be less than the above illustration as our Group will adjust the selling price of its products when there is significant change to raw material pricing.

Any actual variation could exceed the ranges of prices shown above. The above sensitivity analyses are (i) not meant to be exhaustive and (ii) any variation could exceed the ranges given; and (iii) the profit forecast for the six months ending 30 June 2012 is subject to further and additional uncertainties generally.

The profit forecast has been prepared on the basis of bases and assumptions set out in Appendix III” to this prospectus, and on the basis of the accounting policies consistent in all material respects with those currently adopted by us as summarised in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

A detailed description of our Group's future plans is set forth in the paragraph headed "Our Strategies" under the section headed "Business" in this prospectus.

USE OF PROCEEDS

The net proceeds of the Global Offering after deducting the underwriting commissions and estimated expenses in relation to the Global Offering, and assuming an Offer Price of approximately HK\$1.08 per Offer Share (being the mid-point of the indicative Offer price range between HK\$1.00 and HK\$1.15 per Offer Share), are estimated to amount to approximately HK\$159.1 million. Our Directors intend to apply the net proceeds in the following manner :

- 1) approximately HK\$47.7 million, representing about 30% of the net proceeds from the Global Offering, will be used to build new manufacturing facilities and to purchase automatic machinery and equipment for the production of timber villas, sheds and their related parts and structures in order to accommodate the demand of our OEM, ODM and our own-branded products and reduce our reliance on banking facilities;
- 2) approximately HK\$39.8 million, representing about 25% of the net proceeds from the Global Offering, will be used to establish own-brand self-operated stores network. This will involve the establishment of office in Shanghai, own-brand self-operated flagship stores in selected major cities in the PRC and own-brand self-operated stores in selected major provinces in the PRC. We plan to establish 5, 10 and 5 own-brand self-operated stores in selected major cities in the PRC in 2012, 2013 and 2014 respectively, 2 and 3 flagship stores in selected major cities in the PRC in 2012 and 2013 respectively, and an office in Shanghai in 2012. Approximately RMB1.5 million will be applied to establish computerised system relating to the retail sales and inventory management. Our Directors consider that this allocation of net proceeds is sufficient for financing our aforesaid expansion plan;
- 3) approximately HK\$31.8 million, representing about 20% of the net proceeds from the Global Offering, will be applied to achieve further growth through mergers and acquisitions of small to medium sized companies with timber processing plants, warehouse facilities and/or established distribution networks in the PRC to facilitate the future development of our operation;
- 4) approximately HK\$12.7 million, representing about 8% of the net proceeds from the Global Offering, will be used for own-brand promotion and attending PRC and international exhibitions and sales conventions, placing billboard roadside advertisements in cities where we have points of sale and advertising through other mass media forms including the internet, newspapers, television and magazines;

FUTURE PLANS AND USE OF PROCEEDS

- 5) approximately HK\$11.2 million, representing about 7% of the net proceeds from the Global Offering, will be applied to increase and enhance our research and development activities. This will involve (i) establishing laboratories and acquiring raw materials and supporting equipment for product testing centre of RMB7.4 million and (ii) conducting research with foreign and domestic high level educational or industrial institutions of RMB1.6 million; and
- 6) approximately HK\$15.9 million, representing about 10% of the net proceeds from the Global Offering, will be used towards working capital and other general corporate purposes.

In the event that the Offer Price is determined at the high end of the indicative Offer Price range, being HK\$1.15 per Share, the net proceeds from the Global Offering (assuming that the Over-allotment Option is not exercised) will increase to approximately HK\$171.3 million. In such circumstances, our Directors intend to apply the additional net proceeds for all items above except for item 2 on a pro-rata basis.

In the event that the Offer Price is determined at the low end of the indicative Offer Price range, being HK\$1.00 per share, the net proceeds from the Global Offering (assuming that the Over-allotment Option is not exercised) will decrease to approximately HK\$144.3 million. In such circumstances, the amount of net proceeds proposed to be used for all items above except for item 2 will be reduced on a pro rata basis after the full utilisation of our Company's general working capital for the above purposes.

Should the Over-allotment Option be exercised in full, we will receive additional net proceeds of approximately HK\$28.1 million (assuming the Offer Price of approximately HK\$1.08 per Share). Our Directors presently intend to apply the additional net proceeds for all items above except for item 2 on a pro rata basis.

To the extent that the net proceeds of the Global Offering are not immediately used for the above purposes, it is the present intention of our Directors that such proceeds will be placed on short deposits with licensed banks and/or authorised financial institutions in Hong Kong and/or the PRC.

UNDERWRITING

HONG KONG UNDERWRITERS

Lead Manager

Guotai Junan Securities (Hong Kong) Limited

Co-Managers

Ample Orient Capital Limited
Ever-Long Securities Company Limited
Huatai Financial Holdings (Hong Kong) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offer

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering the Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

The Hong Kong Underwriting Agreement is conditional upon and subject to, amongst others, the International Underwriting Agreement becoming unconditional and not having been terminated.

Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe or procure subscribers to subscribe for the Hong Kong Offer Shares which are not taken up under the Hong Kong Public Offer.

Grounds for termination

The Sole Global Coordinator, at its sole and absolute discretion, may, for itself and on behalf of the Hong Kong Underwriters, upon the giving of notice in writing to our Company and/or our Controlling Shareholders, terminate the Hong Kong Underwriting Agreement with immediate effect if, at any time prior to 8:00 a.m. on the Listing Date:

- (a) there has come to the notice of the Sole Global Coordinator that:
 - (i) any statement, estimate, forecast or expression of opinion, intention or expectation contained in this prospectus or any other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offer and the International Placing (including any supplement or amendment thereto) (the “Offer Documents”) considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its sole and absolute opinion to be material in the context of the Global Offering, was, when it was issued, or has become, untrue, incorrect or

UNDERWRITING

misleading in any respect or that any forecast, expression of opinion, intention or expectation expressed in any Offer Documents is not, in the sole and absolute opinion of the Sole Global Coordinator, in all material respects, fair and honest and based on reasonable assumptions, when taken as a whole; or

- (ii) any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission therefrom considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its sole and absolute opinion to be material in the context of the Global Offering; or
- (iii) any of the representations and warranties given by our Company or our Controlling Shareholders or Mr. QS Wu or Ms. Xie or Ms. Yan or our executive Directors in the Hong Kong Underwriting Agreement or the International Underwriting Agreement is (or would when repeated be) untrue, inaccurate or misleading or having been breached and considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its sole and absolute opinion to be material in the context of the Global Offering; or
- (iv) any breach of any of the obligations or undertakings imposed upon any party (other than the Sole Global Coordinator or any of the Underwriters) to any of the Underwriting Agreements; or
- (v) any material adverse change or prospective material adverse change in the condition, business, assets and liabilities, properties, results of operations, in the financial or trading position or prospectus of any of our Group companies; or
- (vi) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares is refused or not granted, other than subject to customary conditions, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (vii) our Company withdraws any of the Offer Documents (and/or any other documents used in connection with the contemplated subscription of the Offer Shares) or the Global Offering; or
- (viii) any matter, event, act or omission which gives or is likely to give rise to any material liability of our Company or our Controlling Shareholders or Mr. QS Wu or Ms. Xie or Ms. Yan or our executive Directors pursuant to the indemnities contained in the Hong Kong Underwriting Agreement; or
- (ix) any one of KPMG, Hills & Co., Conyers Dill & Pearman (Cayman) Limited or Asset Appraisal Limited (other than the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or

UNDERWRITING

- (b) there shall develop, occur, exist or come into effect:
- (i) any change or development involving a prospective change in, or any event or series of events resulting or likely to result in or representing any change or development in local, national, regional or international financial, political, military, industrial, legal, economic, currency market, fiscal or regulatory or market matters or conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Renminbi against any foreign currencies) in or affecting Hong Kong, the PRC, the Cayman Islands, the BVI, the United States, the United Kingdom, the European Union (or any member thereof), Japan, Singapore or any other jurisdiction relevant to our Group (each a “**Relevant Jurisdiction**”); or
 - (ii) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
 - (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, riot, public disorder, acts of terrorism (whether or not responsibility has been claimed), acts of God, epidemic, outbreak of infectious disease (including without limitation Severe Acute Respiratory Syndrome, avian influenza A (H5N1) and swine influenza (H1N1)), in or affecting any of the Relevant Jurisdictions; or
 - (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or
 - (v) (A) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the Nasdaq National Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Tokyo Stock Exchange, or (B) a general moratorium or commercial banking activities in any of the Relevant Jurisdictions declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or
 - (vi) any material adverse change or development or event involving a prospective material adverse change in taxation or exchange controls (or the implementation of any exchange control), currency exchange rates or foreign investment regulations in any of the Relevant Jurisdictions; or
 - (vii) any imposition of economic sanctions, in whatever form, directly or indirectly, by any of the Relevant Jurisdictions; or
 - (viii) any material adverse change or development or event involving a prospective material adverse change in our Group’s assets, liabilities, profit, losses, performance, condition, business, financial, earnings, trading position or prospects; or

UNDERWRITING

- (ix) the commencement by any judicial or regulatory body or organisation of any public action against a Director or an announcement by any judicial or regulatory body or organisation that it intends to take any such action; or
- (x) other than with the approval of the Sole Global Coordinator, the issue or requirement to issue by our Company of a supplementary prospectus or offering document pursuant to the Companies Ordinance or the Listing Rules in circumstances where the matter to be disclosed is, in the opinion of the Sole Global Coordinator materially adverse to the marketing for or implementation of the Global Offering; or
- (xi) a petition is presented for the winding up or liquidation of our Company or any of its subsidiaries, or our Company or any of its subsidiaries make any compromise or arrangement with our Company's or its creditors or enter into a scheme of arrangement or any resolution is passed for the winding-up of our Company or any of its subsidiaries or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or any of its subsidiaries or anything analogous thereto occurs in respect of our Company or any of its subsidiaries; or
- (xii) a valid demand by any creditor for repayment or payment of any of our Company's indebtedness or those of any of its subsidiaries or in respect of which our Company or any of its subsidiaries are liable prior to its stated maturity, or any loss or damage sustained by our Company or any of its subsidiaries (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (xiii) any material litigation or claim being threatened or instigated against our Company or any of its subsidiaries or our Controlling Shareholders,

and which, in any of the above cases and in the sole opinion of Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters):

- (1) is or may or will be or is likely to be materially adverse to, or materially and prejudicially affect, the business or financial or trading position or prospects of our Company or its subsidiaries as a whole; or
- (2) has or may have or will have or is likely to have a material adverse effect on the success of the Global Offering and/or make it impracticable or inadvisable for any part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offer or the Global Offering to be performed or implemented as envisaged; or
- (3) makes or may make or will or is likely to make it inadvisable or inexpedient to proceed with the Hong Kong Public Offer and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus.

UNDERWRITING

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by our Company

Under Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that our Company will not issue any further Shares or securities convertible into equity securities of the Company (whether or not of a class already issued) or enter into any agreement to such issue within six months from the Listing Date (whether or not such issue of Shares or securities of our Company will be completed within six months from the Listing Date), except under the Capitalisation Issue or the Global Offering (including the exercise of the Over-allotment Option) for the circumstances provided under Rule 10.08(1) to 10.08(4) of the Listing Rules.

Pursuant to the Hong Kong Underwriting Agreement, our Company has undertaken to each of the the Sole Sponsor, the Sole Global Coordinator, Bookrunner and Lead Manager and the Hong Kong Underwriters that except pursuant to the Capitalisation Issue, the Global Offering, the Over-allotment Option and options which may be granted under any share option scheme of any member of our Group or with the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, our Company will not, at any time within the period commencing from the date of the Hong Kong Underwriting Agreement up to and including the date which is six months from the Listing Date (the “**First Six-month Period**”), (a) offer, accept subscription for, pledge, issue, sell, lend, mortgage, assign, charge, contract to issue or sell, sell any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any such share capital or other securities of our Company or any interest therein (including, but not limited to, any securities that are convertible into or exchangeable for, or that represent the right to receive any such capital or securities or any interest therein; or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a) or (b) above; whether any such transaction described in (a) or (b) or (c) above is to be settled by delivery of Shares or other securities, in cash or otherwise.

Undertakings by our Controlling Shareholders

Pursuant to the Hong Kong Underwriting Agreement, each of our Controlling Shareholders has undertaken to each of the Sole Sponsor, the Sole Global Coordinator, Bookrunner and Lead Manager, our Company and the Hong Kong Underwriters that:

- (i) during the First Six-month Period, it shall not, and shall procure that the relevant registered holder(s) and its associates and companies controlled by it and any nominee or trustee holding in trust for it shall not, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless pursuant to the Stock Borrowing Arrangement that may be entered with the stabilising manager or its agent or otherwise in compliance with the requirements of the Listing Rules, (a) offer, pledge, charge (other than any pledge or charge of our Company’s issued share capital after the Global Offering (assuming the Over-allotment Option is not exercised) in favour of an authorised institution as defined in the Banking Ordinance (Cap. 155 of the Laws of Hong Kong) for a bona fide commercial loan), sell, sell any option or contract to purchase,

UNDERWRITING

purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any share capital or other securities of our Company or any interest therein (including, but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein); or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a) or (b) or (c) above, whether any such transaction is to be settled by delivery of such capital or securities, in cash or otherwise;

- (ii) during the period of six months immediately following the expiry of the First Six-month Period (the “**Second Six-month Period**”), it will not enter into any of the transactions specified in (i)(a), (b) or (c) above or agree or contract to or publicly announce any intention to enter into any such transaction if, immediately following such transfer or disposal, it will cease to be a controlling shareholder (as defined in the Listing Rules) of our Company; and
- (iii) until the expiry of the Second Six-month Period, in the event that it enters into any such transactions or agrees or contracts to, or publicly announces any intention to enter into any such transactions, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Pursuant to the Hong Kong Underwriting Agreement, each of our Controlling Shareholders has further undertaken to each of our Company, the Sole Sponsor, the Sole Global Coordinator, Bookrunner and Lead Manager and the Hong Kong Underwriters that, from the date of the Hong Kong Underwriting Agreement up to and including the expiry of the Second Six-month Period, it will:

- (i) when it pledges or charges any securities or interests in the securities of our Company, immediately inform our Company and the Sole Global Coordinator in writing of such pledge or charge together with the number of securities and nature of interest so pledged or charged; and
- (ii) if and when it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Sole Global Coordinator in writing of such indications.

Our Company will inform the Stock Exchange in writing as soon as it has been informed of any of the matters referred to above (if any) by any of our Controlling Shareholders and disclose such matters by way of a press announcement to be published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

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Pursuant to Rule 10.07 of the Listing Rules, our Controlling Shareholders have undertaken to the Sole Global Coordinator, our Company and the Stock Exchange that it will not, and shall procure that any other registered holder (if any) will not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with the applicable requirements of the Listing Rules:

- (i) during the First Six-month Period, dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) (the “**Parent Shares**”); or
- (ii) during the Second Six-month Period, dispose of, nor enter into any agreement to dispose or otherwise create any options, rights, interests or encumbrances in respect of, any of the Parent Shares to such an extent that immediately following such disposal, or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

Each of our Controlling Shareholders has further undertaken to each of the Stock Exchange, our Company, the Sole Sponsor and the Sole Global Coordinator, Bookrunner and Lead Manager and the Hong Kong Underwriters that within the period commencing from the date by reference to which disclosure of its shareholding in our Company is made in this prospectus up to and including the date which is 12 months from the Listing Date, it will:

- (i) when it pledges or charges any Shares beneficially owned by it in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform our Company in writing of such pledge or charge together with the number of Shares so pledged or charged; and
- (ii) when it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares beneficially owned by it will be sold, transferred or disposed of, immediately inform our Company in writing of such indications.

Hong Kong Underwriters’ interests in our Company

Save as disclosed in this prospectus and save for their interests and obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters is interested beneficially or otherwise in any shares in any member of our Group or has any right (whether legally enforceable or not) or option to subscribe for, or to nominate persons to subscribe for, any shares in any member of our Group.

The International Placing

In connection with the International Placing, it is expected that our Company will enter into the International Underwriting Agreement with, among others, the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, agree to subscribe for the International Placing Shares being offered pursuant to the International Placing or procure subscribers to subscribe for such International Placing Shares.

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Our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters on or before the date which is 30 days from the date of the last day of lodging application under the Hong Kong Public Offer, to require our Company to issue up to and not more than 27,000,000 additional new Shares (representing 15% of the total number of the Offer Shares initially available under the Global Offering) at the Offer Price to cover over-allocations in the International Placing.

Commission

The Underwriters will receive a commission of 3.0% of the aggregate Offer Price of all the Offer Shares, out of which they will pay any sub-underwriting commission. In addition, the Sole Sponsor will receive a sponsorship and documentation fee in relation to the Global Offering. The underwriting commission, financial advisory and documentation fees, listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees together with printing and other expenses relating to the Global Offering, assuming an Offer Price of approximately HK\$1.08 (being the mid-point of Offer Price range between HK\$1.00 per Offer Share and HK\$1.15 per Offer Share), are estimated to amount to approximately HK\$35.3 million in total (assuming that the Over-allotment Option is not being exercised).

Indemnity

Our Company and our Controlling Shareholders have agreed to indemnify the Hong Kong Underwriters against certain losses which they may suffer, including losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

STRUCTURE OF THE GLOBAL OFFERING

DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or before the Price Determination Date, when the market demand for the Offer Shares will be ascertained. The Price Determination Date is currently expected to be on 29 June 2012 and, in any event, not later than 4 July 2012.

Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but not expected to be, lower than indicative Offer Price range as stated in this prospectus. The Offer Price will not be more than HK\$1.15 per Offer Share and is expected to be not less than HK\$1.00 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offer.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, where it considers appropriate, based on the level of interest expressed by prospective professional, institutional and private investors during a book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day lodging applications under the Hong Kong Public Offer, cause there to be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.merrygardenholdings.com notices of reduction in the number of Offer Shares and/or the indicative Offer Price range. Upon issue of such a notice, the revised number of Offer Shares and/or the Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics as currently set out in the section headed "Summary" in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any notice being published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.merrygardenholdings.com of a reduction in the indicative Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offer, the Offer Price, if agreed upon by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

If, for any reason, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company are unable to enter into the Price Determination Agreement by the Price Determination Date, the Global Offering will not become unconditional and will not proceed.

Announcement of the Offer Price, together with indication of the level of interests in the International Placing and the results of application under the Hong Kong Public Offer and basis of allocation of the Hong Kong Offer Shares is expected to be published in The Standard (in English) and the Hong Kong Economic Journal (in Chinese) and on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.merrygardenholdings.com.

STRUCTURE OF THE GLOBAL OFFERING

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$1.15 per Offer Share and is expected to be not less than HK\$1.00 per Offer Share. Applicants under the Hong Kong Public Offer should pay, on application, the maximum price of HK\$1.15 per Offer Share and 1% brokerage, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy. That means a total of HK\$2,323.19 is payable for one board lot of 2,000 Shares. The Application Forms have tables showing the exact amount payable for certain numbers of Hong Kong Offer Shares. If the Offer Price, as finally determined in the manner as described above, is lower than the maximum price of HK\$1.15 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application money) will be made to applicants, without interest. Further details are set out in the section headed “How to apply for the Hong Kong Offer Shares” in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of the application for the Offer Shares pursuant to the Hong Kong Public Offer is conditional upon:

1. **Listing**

The Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on the Stock Exchange and such approval not subsequently having been revoked prior to the commencement of dealings in the Shares.

2. **Underwriting Agreements**

- (i) The obligations of the Underwriters under the Underwriting Agreements becoming unconditional, and not being terminated in accordance with the terms thereof; and
- (ii) the execution and delivery of the International Underwriting Agreement prior to or on the Price Determination Date.

3. **Price determination**

The Offer Price having been determined and the execution of the Price Determination Agreement on or around the Price Determination Date.

If any of the conditions is not fulfilled or waived on or before the times specified above, the Global Offering will lapse and the application money will be returned to the applicants, without interest. The terms on which the application money will be returned to the applicants are set out in the paragraph headed “Refund of your money” in the relevant Application Forms.

In the meantime, the application money will be held in one or more separate bank accounts with the receiving banker or other bank(s) in Hong Kong, licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

The Global Offering comprises the International Placing and the Hong Kong Public Offer. A total of initially 180,000,000 Offer Shares will be made available under the Global Offering, of which 162,000,000 International Placing Shares (subject to re-allocation and the Over-allotment Option), representing 90% of the Offer Shares, will initially be conditionally placed with selected professional, institutional and private investors under the International Placing. The remaining 18,000,000 Hong Kong Offer Shares (subject to re-allocation), representing 10% of the Offer Shares, will initially be offered to members of the public in Hong Kong under the Hong Kong Public Offer.

The Hong Kong Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Underwriters have severally agreed to underwrite the Hong Kong Offer Shares under the terms of the Hong Kong Underwriting Agreement. The International Underwriters will severally underwrite the International Placing Shares pursuant to the terms of the International Underwriting Agreement. Further details of the underwriting are set out in the section headed “Underwriting” in this prospectus.

Investors may apply for the Offer Shares under the Hong Kong Public Offer or indicate an interest for Offer Shares under the International Placing, but may not do both.

International Placing

Our Company is expected to offer initially 162,000,000 International Placing Shares (subject to re-allocation and the Over-allotment Option) at the Offer Price under the International Placing. The number of International Placing Shares expected to be initially available for application under the International Placing represents 90% of the total number of Offer Shares being initially offered under the Global Offering. The International Placing is expected to be fully underwritten by the International Underwriters subject to the Offer Price being agreed on or before the Price Determination Date.

It is expected that the International Underwriters, or selling agents nominated by them, on behalf of our Company, will conditionally place the International Placing Shares at the Offer Price with selected professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Private investors applying through banks or other institutions who sought the International Placing Shares in the International Placing may also be allocated the International Placing Shares.

Allocation of the International Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and its shareholders as a whole. Investors to whom International Placing Shares are offered will be required to undertake not to apply for Shares under the Hong Kong Public Offer.

STRUCTURE OF THE GLOBAL OFFERING

Our Company, the Directors, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Underwriters) are required to take reasonable steps to identify and reject applications under the Hong Kong Public Offer from investors who receive Shares under the International Placing, and to identify and reject indications of interest in the International Placing from investors who receive Shares under the Hong Kong Public Offer.

The International Placing is expected to be subject to the conditions as stated in the paragraph headed “Conditions of the Global Offering” of this section.

Hong Kong Public Offer

Our Company is initially offering 18,000,000 Hong Kong Offer Shares for subscription (subject to re-allocation) by members of the public in Hong Kong under the Hong Kong Public Offer, representing 10% of the total number of Offer Shares offered under the Global Offering. The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters subject to the Offer Price being agreed on or before Price Determination Date. Applicants for the Hong Kong Offer Shares are required on application to pay the maximum Offer Price of HK\$1.15 per Share plus a 1% brokerage, a 0.005% Stock Exchange trading fee and a 0.003% SFC transaction levy.

The Hong Kong Public Offer is open to all members of the public in Hong Kong. An applicant for Shares under the Hong Kong Public Offer will be required to give an undertaking and confirmation in the application submitted by him/her/it that he/she/it has not applied for nor taken up any Shares under the International Placing nor otherwise participated in the International Placing. Applicants should note that if such undertaking and/or confirmation given by an applicant is breached and/or is untrue, such applicant’s application under the Hong Kong Public Offer is liable to be rejected.

For allocation purposes only, the number of the Hong Kong Offer Shares will be divided equally into two pools: pool A and pool B. The Hong Kong Offer Shares in pool A will consist of 9,000,000 Shares and will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares in the value of HK\$5 million (excluding brokerage, Stock Exchange trading fee and SFC transaction levy thereon) or less. The Hong Kong Offer Shares available in pool B will consist of 9,000,000 Shares and will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares in the value of more than HK\$5 million (excluding brokerage, Stock Exchange trading fee and SFC transaction levy) and up to the value of pool B.

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is under-subscribed, the surplus Hong Kong Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Any application made for more than 100% of the Hong Kong Offer Shares initially available under pool A or pool B will be rejected.

Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offer will be based solely on the level of valid applications received under the Hong Kong Public Offer. When there is over-subscription under the Hong Kong Public Offer, allocation of the Hong Kong Offer

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Shares may involve balloting, which would mean that some applicants may be allotted more Hong Kong Offer Shares than others who have applied for the same number of the Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

BASIS OF ALLOCATION OF THE OFFER SHARES

The allocation of the Offer Shares between the International Placing and the Hong Kong Public Offer is subject to reallocation on the following basis:

- (a) if the number of Shares validly applied for under the Hong Kong Public Offer represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Hong Kong Public Offer, then Shares will be reallocated to the Hong Kong Public Offer from the International Placing, so that the total number of Shares available for subscription under the Hong Kong Public Offer will be increased to 54,000,000 Shares, representing 30% of the Offer Shares initially available for subscription under the Global Offering;
- (b) if the number of Shares validly applied for under the Hong Kong Public Offer represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Hong Kong Public Offer, then Shares will be reallocated to the Hong Kong Public Offer from the International Placing, so that the number of Shares available for subscription under the Hong Kong Public Offer will be increased to 72,000,000 Shares, representing 40% of the Offer Shares initially available for subscription under the Global Offering; and
- (c) if the number of Shares validly applied for under the Hong Kong Public Offer represents 100 times or more the number of Shares initially available for subscription under the Hong Kong Public Offer, then Shares will be reallocated to the Hong Kong Public Offer from the International Placing, so that the number of Shares available for subscription under the Hong Kong Public Offer will be increased to 90,000,000 Shares, representing 50% of the Offer Shares initially available for subscription under the Global Offering.

In all cases, the additional Shares reallocated to the Hong Kong Public Offer will be allocated equally between pool A and pool B and the number of Offer Shares allocated to the International Placing will be correspondingly reduced.

The Offer Shares to be offered in the Hong Kong Public Offer and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, our Company is expected to grant to the Sole Global Coordinator (for itself and on behalf of the International Underwriters) the Over-allotment Option which will expire on a date which is 30 days from the date of the last day of lodging application under the Hong Kong Public Offer. Pursuant to the Over-allotment Option, our Company may be required by the Sole Global Coordinator (for itself and on behalf of the International Underwriters) to allot and issue up to and not more than 27,000,000 additional new Shares (representing 15% of the total number of the Offer Shares initially available under the Global Offering) at the Offer Price to cover

STRUCTURE OF THE GLOBAL OFFERING

over-allocations in the International Placing. The Sole Global Coordinator (for itself and on behalf of the International Underwriters) may also cover such over-allocations by, among other means, purchasing Shares in the secondary market or through stock borrowing arrangements with Green Seas or by a combination of these means or otherwise as may be permitted under the applicable laws and regulatory requirements. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations. If the Over-allotment Option is exercised in full, the additional 27,000,000 new Shares will represent approximately 2.63% of our Company's enlarged issued share capital immediately after completion of the Capitalisation Issue, the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised or expired, a press announcement will be made.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. In Hong Kong, the stabilisation price is not permitted to exceed the offer price.

In connection with the Global Offering, the Sole Global Coordinator, as the stabilising manager, or its affiliates or any person acting for it, for itself and on behalf of the Underwriters, may over-allocate Shares or effect transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. The number of Shares that may be over-allocated will be up to, but not more than, an aggregate of 27,000,000 additional Shares, being the number of the Shares that may be issued under the Over-allotment Option. Such stabilising actions may include over-allocating International Placing Shares and covering such over allocations by exercising the Over-allotment Option or by making purchases in the secondary market or through stock borrowing arrangement with Green Seas or through a combination of these means or otherwise. However, there is no obligation on the Sole Global Coordinator, its affiliates or any person acting for it to conduct any such stabilisation action. Such stabilisation action, if commenced, will be conducted at the absolute discretion of the Sole Global Coordinator, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period. Such transactions may be effected in compliance with all applicable laws and regulatory requirements.

Subject to and under the Securities and Futures (Price Stabilising) Rules of the SFO, the Sole Global Coordinator (for itself and on behalf of the Underwriters) may take all or any of the following actions ("primary stabilising action") with respect to any Shares during the stabilisation period, which should end on 28 July 2012, being the 30th day after the last day for lodging application under the Hong Kong Public Offer:

- (1) purchase, or agree to purchase, any of the Shares;

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- (2) offer or attempt to do anything as described in paragraph (1), for the sole purpose of preventing or minimising any reduction in the market price of the Shares. The Sole Global Coordinator (for itself and on behalf of the Underwriters) may also, in connection with any primary stabilising action, take all or any of the following actions:
- (a) for the purpose of preventing or minimising any reduction in the market price of the Shares:
 - (i) allocate a greater number of Shares than the number that is initially offered under the Global Offering; or
 - (ii) sell or agree to sell Shares so as to establish a short position in them;
 - (b) pursuant to an option or other right to purchase or subscribe for Shares, purchase or subscribe for or agree to purchase or subscribe for Shares in order to close out any position established under paragraph (a);
 - (c) sell or agree to sell any Shares acquired by it in the course of the primary stabilising action in order to liquidate any position that has been established by such action; and/or
 - (d) offer or attempt to do anything as described in paragraphs (a)(ii), (b) or (c).

Investors should be aware:

- that the Sole Global Coordinator (for itself and on behalf of the Underwriters) may, in connection with the stabilising action, maintain a long position in the Shares;
- that there is no certainty regarding the extent to which and the time period for which the Sole Global Coordinator will maintain such a long position;
- of possible impact in the case of liquidation of such a long position by the Sole Global Coordinator;
- that stabilising action cannot be taken to support the price of the Shares for longer than the stabilising period which begins on the Listing Date and ends on the earlier of the 30th day after the last day for the lodging of applications under the Hong Kong Public Offer or the commencement of trading of the Shares on the Stock Exchange, that the stabilising period is expected to expire on 28 July 2012, and that after this date, when no further stabilising action may be taken, demand for the Shares, and therefore its price could fall;
- that the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and that stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price the investor has paid for the Shares.

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STOCK BORROWING ARRANGEMENT

In connection with the Global Offering, the Sole Global Coordinator may over-allocate up to and not more than an aggregate of 27,000,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of covering such over-allocations, the Sole Global Coordinator may borrow up to 27,000,000 Shares from Green Seas, equivalent to the maximum number of Shares to be issued on a full exercise of the Over-allotment Option, under the Stock Borrowing Agreement.

Such stock borrowing arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the following requirements as set out in Rule 10.07(3) of the Listing Rules are complied with:

- the stock borrowing arrangement is fully described in this prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Share to be borrowed from Green Seas will be limited to the maximum number of Shares that may be issued upon full exercise of the Over-allotment Option;
- the same number of Shares so borrowed will be returned to Green Seas or its nominees (as the case may be) within three Business Days after the last day on which the Over-allotment Option may be exercised or, if earlier, the date on which the Over-allotment Option is exercised in full;
- the borrowing of Shares pursuant to the stock borrowing arrangement will be effected in compliance with applicable Listing Rules, laws and other regulatory requirements; and
- no payments will be made to Green Seas in relation to such stock borrowing arrangement.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. CHANNELS TO APPLY FOR THE HONG KONG OFFER SHARES

You may apply for the Hong Kong Offer Shares by using one of the following channels:

- using a **White** or **Yellow** Application Form; or
- giving **electronic application instruction** to HKSCC to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf;
- by means of **White Form eIPO** by submitting applications online through the designated website at **www.eipo.com.hk**. Use **White Form eIPO** if you want the Shares issued in your own name.

You or you and your joint applicant(s) may only make one application (whether individually or jointly) by applying on a **White** or **Yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider.

2. WHO CAN APPLY FOR THE HONG KONG OFFER SHARES

You can apply for Hong Kong Offer Shares if you or any person(s) for whose benefit you are applying are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are not a U.S. Person (as defined in Regulation S of the U.S. Securities Act); and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors or those who have obtained approval from competent regulatory authorities).

If you wish to apply for Hong Kong Offer Shares online through the designated website at **www.eipo.com.hk** under the **White Form eIPO** service, in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of the **White Form eIPO** service.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the application form must be signed by a duly authorised officer, who must state his or her representative capacity.

If an application is made by a person duly authorised under a valid power of attorney, our Company, the Sole Sponsor and the Sole Global Coordinator (or its agents or nominees) may accept it at their discretion, and subject to any conditions as any of them may think fit, including production of evidence of the authority of the attorney.

HOW TO APPLY FOR HONG KONG OFFER SHARES

The number of joint applicants may not exceed four.

Our Company, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Underwriters) or their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

The Hong Kong Offer Shares are not available to existing beneficial owners of Shares, the Directors, or chief executives or their respective associates or any other connected persons (as defined in the Listing Rules) of our Company or persons who will become connected persons of our Company immediately upon completion of the Capitalisation Issue and the Global Offering.

You should also note that you may apply for Shares under the Hong Kong Public Offer or indicate an interest for Shares under the International Placing, but may not do both.

3. WHICH APPLICATION CHANNEL YOU SHOULD USE

(a) **White Application Forms**

Use a **White** Application Form if you want the Hong Kong Offer Shares to be registered in your own name.

(b) **Apply through the designated White Form eIPO service**

Instead of using a **White** Application Form, you may apply for the Hong Kong Offer Shares by means of **White Form eIPO** by submitting applications online through the designated website at www.eipo.com.hk. Use **White Form eIPO** if you want the Hong Kong Offer Shares to be registered in your own name.

(c) **Yellow Application Forms**

Use a **Yellow** Application Form if you want the Hong Kong Offer Shares to be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant.

(d) **Instruct HKSCC to make an electronic application on your behalf**

Instead of using a **White** or **Yellow** Application Form or **White Form eIPO** service, you may give **electronic application instruction** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf via CCASS. Any Hong Kong Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Note: Except in the circumstances permitted under the Listing Rules, the Hong Kong Offer Shares are not available to existing beneficial owners of Shares, the Directors or chief executive of our Company or any of its subsidiaries or associates or connected persons or persons who do not have a Hong Kong address.

HOW TO APPLY FOR HONG KONG OFFER SHARES

4. WHERE TO COLLECT THE APPLICATION FORMS

- (a) You can collect a **White** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 25 June 2012 until 12:00 noon on Thursday, 28 June 2012 from:

any of the following Hong Kong Underwriters:

Guotai Junan Securities (Hong Kong) Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Ample Orient Capital Limited
Unit A, 14/F
Two Chinachem Plaza
135 Des Voeux Road Central
Central
Hong Kong

Ever-Long Securities Company Limited
18th Floor
Dah Sing Life Building
99-105 Des Voeux Road Central
Hong Kong

Huatai Financial Holdings (Hong Kong) Limited
Room 5808-12
The Center
99 Queen's Road Central
Hong Kong

any of the following sub-branches of Standard Chartered Bank (Hong Kong) Limited:

| | Branch name | Branch address |
|--------------------------|--------------------------|---|
| Hong Kong Island: | Des Voeux Road | Standard Chartered Bank Building, 4-4A Des Voeux Road Central, Central |
| | 88 Des Voeux Road | 88 Des Voeux Road Central, Central |
| | Hennessy Road Quarry Bay | 399 Hennessy Road, Wanchai G/F, Westlands Gardens, 1027 King's Road, Quarry Bay |
| | Yun Ping Road | G/F to 2/F, Fortune Centre, 44-48 Yun Ping Road, Causeway Bay |
| | Aberdeen | Shop 4A, G/F Aberdeen Centre Site 5, No.6 Nam Ning Street, Aberdeen |

HOW TO APPLY FOR HONG KONG OFFER SHARES

| | Branch name | Branch address |
|-------------------------|-------------------------|---|
| Kowloon: | Kwun Tong Hoi Yuen Road | G/F, Fook Cheong Building, No. 63 Hoi Yuen Road, Kwun Tong |
| | Mongkok | Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok |
| | 68 Nathan Road | Basement, Shop B1, G/F Golden Crown Court, 66-70 Nathan Road, Tsimshatsui |
| | Lok Fu Shopping Centre | Shop G101, G/F., Lok Fu Shopping Centre |
| | Mei Foo Manhattan | Shop Nos. 07 & 09, Ground Floor, Mei Foo Plaza, Mei Foo Sun Chuen |
| New Territories: | Tsuen Wan | Shop C, G/F & 1/F, Jade Plaza, 298 Sha Tsui Road, Tsuen Wan |
| | Metroplaza | Shop No. 175-176, Level 1, Metroplaza, 223 Hing Fong Road, Kwai Chung |
| | Tuen Mun Town Plaza | Shop No. G047-G052, Tuen Mun Town Plaza Phase I, Tuen Mun |
| | Tai Po | 23 & 25 Kwong Fuk Road, Tai Po Market, Tai Po |

- (b) You can collect a **Yellow** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 25 June 2012 until 12:00 noon on Thursday, 28 June 2012 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or your broker may have **Yellow** Application Forms and this prospectus available.

5. WHEN TO APPLY FOR THE HONG KONG OFFER SHARES

(a) **White or Yellow Application Forms**

Your completed **White** or **Yellow** Application Form, with a cheque or banker's cashier order attached, must be lodged by 12:00 noon on Thursday, 28 June 2012 or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Your completed **White** or **Yellow** Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of the receiving bankers listed under the paragraph headed “Where to collect the Application Forms” in this section at the following times:

Monday, 25 June 2012 — 9:00 a.m. - 5:00 p.m.
Tuesday, 26 June 2012 — 9:00 a.m. - 5:00 p.m.
Wednesday, 27 June 2012 — 9:00 a.m. - 5:00 p.m.
Thursday, 28 June 2012 — 9:00 a.m. - 12:00 noon

(b) Electronic application instructions to HKSCC

CCASS Clearing Participants or CCASS Custodian Participants should input **electronic application instructions** at the following times:

Monday, 25 June 2012 — 9:00 a.m. - 8:30 p.m.⁽¹⁾
Tuesday, 26 June 2012 — 8:00 a.m. - 8:30 p.m.⁽¹⁾
Wednesday, 27 June 2012 — 8:00 a.m. - 8:30 p.m.⁽¹⁾
Thursday, 28 June 2012 — 8:00 a.m.⁽¹⁾ - 12:00 noon

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing Participants or CCASS Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 25 June 2012 until 12:00 noon on Thursday, 28 June 2012 (24 hours daily, except the last application day).

The latest time for inputting your **electronic application instructions** via CCASS (if you are a CCASS Participant) is 12:00 noon on Thursday, 28 June 2012 or if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” below.

(c) White Form eIPO

You may submit your application to the designated White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** from 9:00 a.m. on Monday, 25 June 2012 until 11:30 a.m. on Thursday, 28 June 2012 or such later time as described under the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 28 June 2012, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the subparagraph headed “Effect of bad weather conditions on the opening of the application lists” below.

You will not be permitted to submit your application to the designated White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(d) **Application lists**

The application lists will be opened from 11:45 a.m. to 12:00 noon on Thursday, 28 June 2012, except as provided in the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” below.

No proceedings will be taken on applications for the Hong Kong Offer Shares and no allocation of any such Shares will be made until after the closing of the application lists.

(e) **Effect of bad weather conditions on the opening of the application lists**

The application lists will be opened between 11:45 a.m. and 12:00 noon on Thursday, 28 June 2012, subject to weather conditions. The application lists will not be open in relation to the Hong Kong Public Offer if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 28 June 2012. Instead, the application lists will be open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon in Hong Kong.

6. HOW TO APPLY USING A WHITE OR YELLOW APPLICATION FORM

- (a) Obtain a **White** or **Yellow** Application Form.
- (b) You should read the instructions in this prospectus and the relevant Application Form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying cheque or banker’s cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on your Application Form.
- (c) Decide how many Hong Kong Offer Shares you want to purchase. Calculate the amount you must pay in accordance with the table of numbers and payments set out in the Application Forms on the basis of the maximum Offer Price of HK\$1.15 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%.
- (d) Complete the Application Form and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with our company chop (bearing our company name) and signed by a duly authorised officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must sign on the Application Form. If it is a joint application, all applicants must sign on the Application Form. If your application is made through a duly authorised attorney, our Company, the

HOW TO APPLY FOR HONG KONG OFFER SHARES

Sole Sponsor and the Sole Global Coordinator (or its agents or nominees) may accept or reject the application at their discretion, and subject to any conditions as they think fit, including production of evidence of the authority of your attorney. The Sole Global Coordinator in its capacity as agent of our Company has full discretion to accept or reject any application, in full or in part, without assigning any reasons therefor.

- (e) Each Application Form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left-hand corner of the Application Form. If you pay by cheque, the cheque must:
- be in Hong Kong dollars;
 - not be post-dated;
 - be drawn on your Hong Kong dollar bank account in Hong Kong;
 - show your account name, which must either be pre-printed on the cheque, or be endorsed on the reverse of the cheque by an authorised signatory of the bank. This account name must correspond with the name of the applicant on the Application Form (or, in the case of joint applicants, the name of the first-named applicant). If the cheque is drawn on a joint account, one of the joint account names must be the same as the name of the first-named applicant;
 - be made payable to "Horsford Nominees Limited — Merry Garden Public Offer"; and
 - be crossed "Account Payee Only".

Your application may be rejected if your cheque does not meet all these requirements or is dishonoured on the first presentation.

If you pay by banker's cashier order, the banker's cashier order must:

- be issued by a licensed bank in Hong Kong and have your name certified on the reverse of the banker's cashier order by an authorised signatory of the bank on which it is drawn. The name on the reverse of the banker's cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the reverse of the banker's cashier order must be the same as the name of the first-named joint applicant;
- not be post-dated;
- be in Hong Kong dollars;
- be made payable to "Horsford Nominees Limited — Merry Garden Public Offer"; and
- be crossed "Account Payee Only".

HOW TO APPLY FOR HONG KONG OFFER SHARES

Your application may be rejected if your banker's cashier order does not meet all these requirements.

- (f) Lodge your **White** or **Yellow** Application Forms in one of the collection boxes by the time and at one of the locations, as respectively referred to in subparagraph 4(a) above.
- (g) The right is reserved to present all or any remittance for payment. However, your cheque or banker's cashier order will not be presented for payment before 12:00 noon on Thursday, 28 June 2012. Our Company will not give you a receipt for your payment. Our Company will keep any interest accrued on your application monies (up until, in the case of monies to be refunded, the date of collection/despatch of e-Refund payment instructions/refund cheques). The right is also reserved to retain any share certificate(s) and/or any surplus application monies or refunds pending clearance of your cheque or banker's cashier order.
- (h) Multiple or suspected multiple applications are liable to be rejected. Please see the paragraph headed "How many applications you can make" in this section.
- (i) In order for the **Yellow** Application Forms to be valid:

You, as the applicant(s), must complete the form and sign on the first page of the application form. Only written signatures will be accepted.

- If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):
 - the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant I.D. in the appropriate box on the **Yellow** Application Form.
- If the application is made by an individual CCASS Investor Participant:
 - the **Yellow** Application Form must contain your full name and your Hong Kong Identity Card number; and
 - the CCASS Investor Participant should insert its CCASS Participant I.D. in the appropriate box on the **Yellow** Application Form.
- If the application is made by a joint individual CCASS Investor Participant:
 - the **Yellow** Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong Identity Card numbers of all joint CCASS Investor Participants; and
 - the CCASS Participant I.D. must be inserted in the appropriate box on the **Yellow** Application Form.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- If you are applying as a corporate CCASS Investor Participant:
 - the **Yellow** Application Form must contain the CCASS Investor Participant’s company name and Hong Kong business registration number; and
 - the CCASS Participant I.D. and company chop (bearing the CCASS Investor Participant’s company name) must be inserted in the appropriate box on the **Yellow** Application Form.
 - Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of CCASS Participant I.D. or other similar matters may render the application invalid.
- (j) Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are required to designate on each Application Form in the box marked “For nominees” account numbers or other identification codes for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner.

7. HOW TO APPLY THROUGH THE WHITE FORM eIPO SERVICE

- (a) You may apply through **White Form eIPO** by submitting an application through the designated website at **www.eipo.com.hk**. If you apply through **White Form eIPO**, the Shares will be issued in your own name. For the purposes of allocating Hong Kong Offer Shares, each applicant giving **electronic application instructions** through the **White Form eIPO** service to the White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** will be treated as an applicant.
- (b) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at **www.eipo.com.hk**. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated White Form eIPO Service Provider and may not be submitted to our Company.
- (c) The designated White Form eIPO Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at **www.eipo.com.hk**. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.
- (d) By submitting an application to the designated White Form eIPO Service Provider through the **White Form eIPO** service, you are deemed to have authorised the designated White Form eIPO Service Provider to transfer the details of your application to our Company and the Hong Kong Share Registrar.
- (e) You may submit an application through the **White Form eIPO** service in respect of a minimum of 2,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at **www.eipo.com.hk**.

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- (f) You should give **electronic application instructions** through **White Form eIPO** at the times set out in paragraph (b) of the paragraph headed “When to apply for the Hong Kong Offer Shares” of this section.
- (g) You should make payment for your application made by **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at **www.eipo.com.hk**. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Thursday, 28 June 2012, or such later time as described under the paragraph headed “Effect of bad weather conditions on the opening of the application lists” in the section headed “When to apply for the Hong Kong Offer Shares” above, the designated White Form eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at **www.eipo.com.hk**.
- (h) **Warning: The application for Hong Kong Offer Shares through the White Form eIPO service is only a facility provided by the designated White Form eIPO Service Provider to public investors. Our Company, the Directors, the Sole Sponsor, the Sole Global Coordinator, the Underwriters, the White Form eIPO Service Provider and other parties involved in the Global Offering take no responsibility for such applications, and provide no assurance that applications through the White Form eIPO service will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.**

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK\$2 per each “Merry Garden Holdings Limited” **White Form eIPO** application submitted via **www.eipo.com.hk** to support the funding of “Source of DongJiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form eIPO** service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offer to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **White** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **White** or **Yellow** Application Form or give **electronic application instructions** to HKSCC via CCASS. See “How many applications you can make” below.

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8. HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

- (a) CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for the Hong Kong Offer Shares and to arrange for payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.
- (b) If you are a CCASS Investor Participant, you may give **electronic application instructions** to HKSCC through the CCASS Phone System by calling 2979 7888 or CCASS Internet System at <https://ip.ccass.com> (according to the procedures contained in “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2/F Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

- (c) If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.
- (d) You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your designated CCASS Clearing Participant or CCASS Custodian Participant to our Company and the Hong Kong Share Registrar.
- (e) You may give **electronic application instructions** in respect of a minimum of 2,000 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table on the Application Form.
- (f) Where a **White** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:
- (i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **White** Application Form and/or this prospectus; and
- (ii) HKSCC Nominees does all the things on behalf of each of such persons as stated in the paragraph headed “Effect of making any application” below.

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- (g) If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.
- (h) For the purpose of allocating the Hong Kong Offer Shares, HKSCC Nominees shall not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given shall be treated as an applicant.
- (i) The paragraph headed “Personal data” below applies to any personal data held by the Sole Sponsor, the Sole Global Coordinator, our Company and our Hong Kong Share Registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.
- (j) For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, **electronic application instruction** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

Warning

Application for the Hong Kong Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Our Company, the Directors, the Sole Sponsor, the Sole Global Coordinator, the Underwriters and all other parties involved in the Global Offering take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. If CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System to submit electronic application instructions, they should either:

- (a) **submit the White or Yellow Application Form (as appropriate); or**
- (b) **go to HKSCC’s Customer Service Centre to complete an application instruction input request form before 12:00 noon on Thursday, 28 June 2012 or such later time as described under the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” above.**

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9. RESULTS OF ALLOCATIONS

Our Company expects to publish the announcement on the Offer Price, the level of applications in the Hong Kong Public Offer, the level of indications of interest in the International Placing and the basis of allotment of the Hong Kong Offer Shares in The Standard (in English) and the Hong Kong Economic Journal (in Chinese) and on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.merrygardenholdings.com on Thursday, 5 July 2012. Results of allocations in the Hong Kong Public Offer, including the Hong Kong Identity Card numbers, passport numbers or Hong Kong business registration numbers of successful applicants (where appropriate) and the number of Hong Kong Offer Shares successfully applied for under **White** Application Forms, or **Yellow** Application Forms or the designated White Form eIPO Service Provider through the designated **White Form eIPO** website or by giving **electronic application instructions** to HKSCC via CCASS will be made available at the times and dates and in the manner specified below:

- Results of allocations for the Hong Kong Public Offer will be available from the results of allocations website at www.iporesults.com.hk on a 24-hour basis from 8:00 a.m. on Thursday, 5 July 2012 to 12:00 midnight on Wednesday, 11 July 2012. A "Search by ID" function will be available on the results of allocations website at www.iporesults.com.hk. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result.
- Results of allocations will be available from the Hong Kong Public Offer allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, 5 July 2012 to Sunday, 8 July 2012.
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual receiving bank branches and sub-branches from Thursday, 5 July 2012 to Saturday, 7 July 2012 at all the receiving bank branches and sub-branches at the addresses set out in the section headed "Where to collect the Application Forms" above.
- Results of allocations for the Hong Kong Public Offer can be found in the announcement to be published on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.merrygardenholdings.com on Thursday, 5 July 2012.

10. HOW MANY APPLICATIONS YOU CAN MAKE

- (a) You may make more than one application for the Hong Kong Offer Shares only if:
- You are a nominee, in which case you may make an application as a nominee by: (i) giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant); or (ii) using a **White** or **Yellow** Application Form and lodging

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more than one application in your own name on behalf of different beneficial owners. In the box on the **White** or **Yellow** Application Form marked “For nominees” you must include:

- an account number; or
 - some other identification code for each beneficial owner (or, in the case of joint beneficial owners, for each such joint beneficial owner). If you do not include this information, the application will be treated as being made for your own benefit.
- Multiple or suspected multiple applications are liable to be rejected.
- (b) Save as referred to (a) above, all of your applications for the Hong Kong Offer Shares (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**) will be rejected as multiple applications if you, or you and your joint applicant(s) together or any of your joint applicants:
- make more than one application (whether individually or jointly with others) on a **White** or **Yellow** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing or Custodian Participant) or to the designated White Form eIPO Service Provider; or
 - both apply (whether individually or jointly with others) on one (or more) **White** Application Form and one (or more) **Yellow** Application Form or on one (or more) **White** Application Form or one (or more) **Yellow** Application Form and give **electronic application instructions** to HKSCC via CCASS or to the designated White Form eIPO Service Provider; or
 - apply (whether individually or jointly with others) on one (or more) **White** or **Yellow** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing or Custodian Participant) or to the designated White Form eIPO Service Provider for more than 100% of the Hong Kong Offer Shares being initially available in either pool A or pool B to the public as referred to under the section headed “Structure of the Global Offering” in this prospectus; or
 - have applied for or taken up, or indicated an interest in applying for or taking up or have been or will be placed (including conditionally and/or provisionally) any International Placing Shares under the International Placing.

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- (c) All of your applications for the Hong Kong Offer Shares are liable to be rejected as multiple applications if more than one application on a **White** or a **Yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through the **White Form eIPO** service (www.eipo.com.hk) is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:
- (i) the principal business of that company is dealing in securities; and
 - (ii) you exercise statutory control over that company, then the application will be deemed to be made for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control in relation to a company means you:

- (i) control the composition of the board of directors of that company; or
 - (ii) control more than half of the voting power of that company; or
 - (iii) hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).
- (d) If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit to the designated White Form eIPO Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving **electronic application instructions** through the designated website at www.eipo.com.hk and completing payment in respect of such **electronic application instructions**, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

11. EFFECT OF MAKING ANY APPLICATION

- (a) By making any application, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:
- instruct and authorise our Company and/or the Sole Global Coordinator (or its agents or nominees) to execute any transfer forms, contract notes or other documents on your

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behalf and to do on your behalf all other things necessary to effect the registration of any Hong Kong Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Articles and otherwise to give effect to the arrangements described in this prospectus and the relevant Application Form;

- undertake to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Hong Kong Offer Shares allocated to you, and as required by the Articles;
- represent and warrant that you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States when completing and submitting the Application Form and you are not, and none of the other person(s) for whose benefit you are applying, is a U.S. person (as defined in Regulation S of the U.S. Securities Act);
- confirm that you have received and/or read a copy of this prospectus and have only relied on the information and representations contained in this prospectus (save as set out in any supplement to this prospectus) in making your application, and not on any other information or representation concerning our Company and you agree that neither our Company, the Directors, the Sole Sponsor, the Sole Global Coordinator and the Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Global Offering will have any liability for any such other information or representations;
- agree (without prejudice to any other rights which you may have) that once your application has been accepted, you may not revoke or rescind it because of an innocent misrepresentation;
- (if the application is made by an agent on your behalf) warrant that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;
- (if the application is made for your own benefit) warrant that the application is the only application which will be made for your benefit on a **White** or **Yellow** Application Form or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider via **White Form eIPO** service (www.eipo.com.hk);
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **White** or **Yellow** Application Form or by giving **electronic application instructions** to HKSCC, or to the designated White Form eIPO Service Provider via **White Form eIPO** service (www.eipo.com.hk), and that you are duly authorised to sign the Application Form or to give **electronic application instruction** as that other person's agent;
- agree that once your application is accepted, your application will be evidenced by the results of the Hong Kong Public Offer made available by our Company;

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- undertake and confirm that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Placing Shares in the International Placing, nor otherwise participate in the International Placing;
- warrant the truth and accuracy of the information contained in your application;
- agree to disclose to our Company, the Hong Kong Share Registrar, receiving bankers, the Sole Sponsor, the Sole Global Coordinator and the Underwriters and any of their respective officers, advisers and agents any personal data and information which they require about you or the person(s) for whose benefit you have made the application;
- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- undertake and agree to accept the Hong Kong Offer Shares applied for, or any less number allocated to you under the application;
- authorise our Company to place your name(s) or the name of HKSCC Nominees, as the case may be, on the register of members of our Company as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) (where applicable) and/or any refund cheque(s) (where applicable) to you or the first-named applicant (in case of joint applicants) in the application by ordinary post at your own risk to the address stated in your application (unless you have applied for 1,000,000 Hong Kong Offer Shares or more and have indicated in your application that you wish to collect your share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) in person may do so from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong between 9:00 a.m. and 1:00 p.m. on Thursday, 5 July 2012;
- authorise our Company to despatch e-Refund payment instructions to the application payment account if you have completed payment of the **White Form eIPO** application monies from a single bank account; or authorise our Company to issue and despatch refund cheque(s) to the address given on the **White Form eIPO** application if you have completed payment of the application monies from multi-bank accounts;
- if the laws of any place outside Hong Kong are applicable to your application, you agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Sole Global Coordinator and the Underwriters nor any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions set out in the Application Form and in this prospectus;
- agree that our Company, the Sole Sponsor, the Sole Global Coordinator and the Underwriters and any of their respective directors, officers, employees, agents or advisers and any other parties involved in the Global Offering are liable only for and that you have only relied upon, the information and representations contained in this prospectus and any supplement to the prospectus;

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- confirm that you have read the terms and conditions and application procedures set out in this prospectus and the Application Form and agree to be bound by them;
 - agree with our Company and each Shareholder that Shares are freely transferable by the holders thereof;
 - confirm that you are aware of the restrictions on the Hong Kong Offer Shares described in this prospectus;
 - understand that these declarations and representations will be relied upon by our Company, the Sole Sponsor and the Sole Global Coordinator in deciding whether or not to allocate any Hong Kong Offer Shares in response to your application and that you may be prosecuted for making a false declaration; and
 - agree that the processing of your application, may be done by any of our Company's receiving banks and is not restricted to the bank at which your application was lodged.
- (b) If you apply for the Hong Kong Offer Shares using a **Yellow** Application Form, in addition to the confirmations and agreements referred to in (a) above you agree that:
- any Hong Kong Offer Shares allocated to you shall be registered in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant, in accordance with your election on the Application Form;
 - each of HKSCC and HKSCC Nominees reserves the right (1) not to accept any or part of such allocated Hong Kong Offer Shares issued in the name of HKSCC Nominees or not to accept such allocated Hong Kong Offer Shares for deposit into CCASS; (2) to cause such allocated Hong Kong Offer Shares to be withdrawn from CCASS and transferred into your name at your own risk and costs; and (3) to cause such allocated Hong Kong Offer Shares to be issued in your name (or, if you are a joint applicant, to the first-named applicant) and in such a case, to post the share certificates for such allocated Hong Kong Offer Shares at your own risk to the address stated on your Application Form by ordinary post or to make available the same for your collection;
 - each of HKSCC and HKSCC Nominees may adjust the number of allocated Hong Kong Offer Shares issued in the name of HKSCC Nominees;
 - neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this prospectus and the Application Forms; and
 - neither HKSCC nor HKSCC Nominees shall be liable to you in any way.
- (c) In addition, by giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian

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Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to do the following additional things and neither HKSCC nor HKSCC Nominees will be liable to our Company nor any other person in respect of such things:

- instruct and authorise HKSCC to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instruct and authorise HKSCC to arrange payment of the maximum Offer Price, brokerage fee, the SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications and/or if the final Offer Price is less than the maximum Offer Price of HK\$1.15 per Offer Share, refund the appropriate portion of the application money by crediting your designated bank account;
- instruct and authorise HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **White** Application Form;
- (in addition to the confirmations and agreements set out in paragraph (a) above) instruct and authorise HKSCC to cause HKSCC Nominees to do on your behalf the following:
 - agree that the Hong Kong Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted **electronic application instructions** on your behalf;
 - undertake and agree to accept the Hong Kong Offer Shares in respect of which you have given **electronic application instructions** or any lesser number;
 - undertake and confirm that you have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Placing Shares in the International Placing, nor otherwise participate in the International Placing;
 - (if the **electronic application instructions** are given for your own benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have given only one set of **electronic application instructions** for the benefit of that other person, and that you are duly authorised to give those instructions as that other person's agent;

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- understand that the above declaration will be relied upon by our Company and the Sole Sponsor and the Sole Global Coordinator in deciding whether or not to make any allocation of the Hong Kong Offer Shares in respect of the **electronic application instructions** given by you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allocated in respect of your **electronic application instructions** and to send share certificates and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have only relied on the information and representations in this prospectus in giving your **electronic application instructions** or instructing your CCASS Clearing Participant or CCASS Custodian Participant to give **electronic application instructions** on your behalf;
- agree that our Company, the Sole Sponsor and the Sole Global Coordinator, the Underwriters and any of their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering are liable only for, and that you have only relied upon, the information and representations contained in this prospectus and any supplement to this prospectus;
- agree (without prejudice to any other rights which you may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- agree to disclose to our Company, the Hong Kong Share Registrar, the receiving bankers, the Sole Sponsor, the Sole Global Coordinator and the Underwriters and any of their respective officers, advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;
- agree that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable before the fifth day after the closing of the application lists under the Hong Kong Public Offer such agreement to take effect as a collateral contract with our Company and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that our Company will not offer any Hong Kong Offer Shares to any person before the fifth day after the closing of the application lists except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the closing of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

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- agree that once the application of HKSCC Nominees is accepted, neither that application nor your **electronic application instructions** can be revoked and that acceptance of that application will be evidenced by the results of the Hong Kong Public Offer made available by our Company; and
- agree to the arrangements, undertakings and warranties specified in the participant agreement between you and HKSCC and read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to the Hong Kong Offer Shares.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allocated Hong Kong Offer Shares are set out in the notes attached to the Application Forms, and you should read them carefully. You should note in particular the following situations in which Hong Kong Offer Shares will not be allocated to you or your application is liable to be rejected:

(a) **If your application is revoked:**

By completing and submitting an Application Form or submitting **electronic application instructions** to HKSCC or the White Form eIPO Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked before the expiration of the fifth day after the closing of the application lists under the Hong Kong Public Offer. This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your application form or submit your **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider. This collateral contract will be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the expiration of the fifth day after the closing of the application lists except by means of one of the procedures referred to in this prospectus.

However, your application or the application made by HKSCC Nominees on your behalf may only be revoked before the fifth day after the closing of the application lists under the Hong Kong Public Offer (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in English in The Standard and in Chinese in the

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Hong Kong Economic Journal and on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.merrygardenholdings.com of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) If the allocation of the Hong Kong Offer Shares is void:

Your allocation of the Hong Kong Offer Shares (and the allocation to HKSCC Nominees, as the case may be) will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing date of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing of the application lists.

(c) If you make applications under the Hong Kong Public Offer as well as the International Placing:

By filling in any of the Application Forms or giving **electronic application instructions** to HKSCC via CCASS or to the designated White Form eIPO Service Provider, you agree not to apply for International Placing Shares under the International Placing. Reasonable steps will be taken to identify and reject applications under the Hong Kong Public Offer from investors who have received International Placing Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offer.

(d) If our Company, the Sole Sponsor, the Sole Global Coordinator or the White Form eIPO Service Provider or their respective agents or nominees exercise their discretion to reject your application:

Our Company, the Sole Sponsor, the Sole Global Coordinator (for itself and on behalf of the Underwriters) or the White Form eIPO Service Provider (where applicable) or their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

(e) If:

- your application is a multiple or a suspected multiple application;
- your Application Form is not completed in accordance with the instructions as stated therein (if you apply by an Application Form);
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions set out in the designated website at www.eipo.com.hk;

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- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation;
- you or the person for whose benefit you are applying have applied for or taken up or indicated an interest for or have received or have been or will be placed or allocated (including conditionally and/or provisionally) the International Placing Shares under the International Placing;
- your application is for more than 9,000,000 Offer Shares, being 50% of the Hong Kong Offer Shares initially being available under the Hong Kong Public Offer as referred to under the section headed "Structure of the Global Offering" in this prospectus;
- any of the Underwriting Agreements does not become unconditional or it is terminated in accordance with the terms thereof or otherwise; or
- our Company, the Sole Sponsor, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and the White Form eIPO Service Provider or their respective agents believe that by accepting your application would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is completed and/or signed.

13. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price of the Hong Kong Offer Shares is HK\$1.15 each. You must also pay brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.003%. The proposed board lot for trading in the Shares is 2,000 Shares. This means that for one board lot of 2,000 Hong Kong Offer Shares, you will pay HK\$2,323.19. The Application Forms have tables showing the exact amount payable for numbers of Hong Kong Offer Shares.

You must pay the maximum Offer Price, brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.003% in full when you apply for the Hong Kong Offer Shares.

If your application is successful, the brokerage is paid to participants of the Stock Exchange, the Stock Exchange trading fee is paid to the Stock Exchange and the SFC transaction levy is paid to the SFC.

If the Offer Price as finally determined is less than HK\$1.15 per Share, appropriate refund payments (including brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.003% attributable to the surplus application monies) will be made to successful applicants, without interest. Details of the procedures for refund are set out in the paragraph headed "Refund of your money — additional information" below.

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14. IF YOUR APPLICATION FOR THE HONG KONG OFFER SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)

(a) If you are applying using a **White** Application Form:

- Applicants who have applied on **White** Application Forms for 1,000,000 Hong Kong Offer Shares or more and have indicated on their Application Forms that they wish to collect share certificate(s) and/or refund cheque(s) (where applicable) in person from the Hong Kong Share Registrar may collect share certificate(s) and/or refund cheque(s) (where applicable) in person from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 5 July 2012.
- Refund cheque(s) and share certificate(s) for these applicants who apply for less than 1,000,000 Hong Kong Offer Shares or apply for 1,000,000 or more Hong Kong Offer Shares and have not indicated on your Application Form that you will collect share certificate(s) and/or refund cheque(s) (where applicable) in person are expected to be despatched on Thursday, 5 July 2012 to the address being the address specified in the relevant Application Form.
- Applicants being individuals who are applying for 1,000,000 Hong Kong Offer Shares or more and opt for personal collection cannot authorise any other person to make collection on their behalf. Corporate applicants who are applying for 1,000,000 Hong Kong Offer Shares or more and opt for personal collection must attend by their authorised representatives bearing letters of authorisation from the corporation stamped with the corporation's respective chops. Both individuals and authorised representatives (where applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.
- Uncollected share certificate(s) and refund cheque(s) (where applicable) will be despatched by ordinary post at the applicants' own risk to the addresses specified on the relevant Application Forms.

(b) If: (i) you are applying on a **Yellow** Application Form; or (ii) you are giving **electronic application instructions** to HKSCC, and in each case you elect to have allocated Hong Kong Offer Shares deposited directly into CCASS:

If your application is wholly or partly successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you (on the Application Form or electronically, as the case may be), on Thursday, 5 July 2012 or, under certain contingent situations, on any other date as shall be determined by HKSCC or HKSCC Nominees.

- **If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) on a Yellow Application Form:**

For Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

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- **If you are applying as a CCASS Investor Participant on a Yellow Application Form:**

Our Company is expected to make available the results of the Hong Kong Public Offer, including the results of CCASS Investor Participants' applications, in the manner described above in the paragraph headed "Results of allocations" on Thursday, 5 July 2012. You should check the results made available by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 5 July 2012 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System or CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

- **If you have given electronic application instructions to HKSCC:**

Our Company is expected to make available the application results of the Hong Kong Public Offer, including the results of CCASS Participants' applications (and in the case of CCASS Clearing Participants and CCASS Custodian Participants, our Company shall include information relating to the beneficial owner), your Hong Kong Identity Card number or passport number or Hong Kong business registration number or other identification code (as appropriate) in the manner described above in the paragraph headed "Results of allocations" on Thursday, 5 July 2012. You should check the results made available by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 5 July 2012 or any other date HKSCC or HKSCC Nominees chooses.

- **If you are instructing your CCASS Clearing Participant or CCASS Custodian Participant to give electronic application instructions to HKSCC on your behalf:**

You can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund (where applicable) payable to you with that CCASS Clearing Participant or CCASS Custodian Participant.

- **If you are applying as a CCASS Investor Participant by giving electronic application instruction to HKSCC:**

You can also check the number of the Hong Kong Offer Shares allocated to you and the amount of refund (where applicable) payable to you via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 5 July 2012. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of the Hong Kong Offer Shares credited to your stock account and the amount of refund credited to your designated bank account (where applicable).

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(c) If you are applying through **White Form eIPO**:

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the designated White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** and your application is wholly or partially successful, you may collect your share certificate(s) in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 5 July 2012, or such other date as notified by our Company in the newspapers as the date of despatch/collection of share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** on Thursday, 5 July 2012 by ordinary post and at your own risk.

If you paid the application monies from a single bank account and your application is wholly or partially unsuccessful and/or the final Offer Price is different from the Offer Price initially paid on your application, e-Refund payment instructions (if any) will be despatched to the application payment account on or before Thursday, 5 July 2012.

If you used multi-bank accounts to pay the application monies and your application is wholly or partially unsuccessful and/or the final Offer Price is different from the Offer Price initially paid on your application, refund cheque(s) will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider on or before Thursday, 5 July 2012, by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated White Form eIPO Service Provider set out below in "Refund of your money — additional information".

No receipt will be issued for application monies paid. Our Company will not issue temporary documents of title.

15. REFUND OF YOUR MONEY — ADDITIONAL INFORMATION

- (a) You will be entitled to a refund (any interest accrued on refund money prior to the date of collection/despatch of e-Refund payment instructions/refund cheques will be retained for the benefit of our Company) if:
- your application is not successful, in which case our Company will refund your application money together with the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee to you, without interest;

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- your application is accepted only in part, in which case our Company will refund the appropriate portion of your application money, the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee, without interest;
 - the Offer Price (as finally determined) is less than the price per Offer Share initially paid by you on application, in which case our Company will refund the surplus application money together with the appropriate portion of the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee, without interest; and
 - the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the paragraph headed “Conditions of the Global Offering” under the section headed “Structure of the Global Offering” in this prospectus.
- (b) If you apply on a **Yellow** Application Form for 1,000,000 Hong Kong Offer Shares or more and have indicated on your Application Form that you wish to collect your refund cheque in person, you may collect your refund cheque (where applicable) in person from the Hong Kong Share Registrar on Thursday, 5 July 2012. The procedure for collection of refund cheques for **Yellow** Application Form applicants is the same as that for **White** Application Form applicants set out in sub-paragraph (a) of the paragraph headed “If your application for the Hong Kong Offer Shares is successful (in whole or in part)” in this section.

If you have applied for 1,000,000 Hong Kong Offer Shares or more and have not indicated on your Application Form that you will collect your refund cheque (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque (if any) will be sent to the address on your Application Form on the date of despatch, which is expected to be on Thursday, 5 July 2012, by ordinary post and at your own risk.

- (c) If you are applying by giving **electronic application instructions** to HKSCC to apply on your behalf, all refunds are expected to be credited to your designated bank account (if you are applying as a CCASS Investor Participant) or the designated bank account of your broker or custodian (if you are applying through a CCASS Clearing Participant or CCASS Custodian Participant) on Thursday, 5 July 2012.
- (d) If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated White Form eIPO Service Provider, the designated White Form eIPO Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated White Form eIPO Service Provider on the designated website at **www.eipo.com.hk**.

Otherwise, any monies payable to you due to a refund for any of the reasons set out above in this section shall be made pursuant to the arrangements described above in “If your application for the Hong Kong Offer Shares is successful (in whole or in part) — If you are applying through **White Form eIPO**”.

- (e) Refund cheque will be crossed “Account Payee Only”, and made out to you, or if you are a joint applicant, to the first-named applicant on your Application Form. Part of your Hong Kong Identity Card number or passport number, or, if you are joint applicants, part of the

HOW TO APPLY FOR HONG KONG OFFER SHARES

Hong Kong Identity Card number or passport number of the first-named applicant, provided by you may be printed on your refund cheque, where applicable. Such data may also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong Identity Card number or passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number or passport number may lead to delay in encashment of or may invalidate your refund cheque.

- (f) e-Refund payment instructions/refund cheques are expected to be despatched on or before Thursday, 5 July 2012. Our Company intends to make special efforts to avoid undue delays in refunding money.

16. PERSONAL DATA

The main provisions of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (the “Ordinance”) came into effect in Hong Kong on 20 December 1996. This Personal Information Collection Statement informs the applicant for and holder of the Hong Kong Offer Shares of the policies and practices of our Company and the Hong Kong Share Registrar in relation to personal data and the Ordinance.

(a) **Reasons for the collection of your personal data**

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to our Company and the Hong Kong Share Registrar when applying for securities or transferring securities into or out of their names or in procuring the services of the Hong Kong Share Registrar.

Failure to supply the requested data may result in your application for securities being rejected or in delay or inability of our Company or the Hong Kong Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Hong Kong Offer Shares which you have successfully applied for and/or the despatch of share certificate(s), and/or the despatch of e-Refund payment instructions/refund cheque(s) to which you are entitled.

It is important that holders of securities inform our Company and the Hong Kong Share Registrar immediately of any inaccuracies in the personal data supplied.

(b) **Purposes**

The personal data of the applicants and the holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and e-Refund payment instructions/refund cheque, where applicable and verification of compliance with the terms and application procedures set out in the Application Forms and this prospectus and announcing results of allocations of the Hong Kong Offer Shares;
- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;

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- registering new issues or transfers into or out of the name of holders of securities including, where applicable, in the name of HKSCC Nominees;
- maintaining or updating the registers of holders of securities of our Company;
- conducting or assisting to conduct signature verifications, any other verification or exchange of information;
- establishing benefit entitlements of holders of securities of our Company, such as dividends, rights issues and bonus issues;
- distributing communications from our Company and its subsidiaries;
- compiling statistical information and shareholder profiles;
- making disclosures as required by any laws, rules or regulations;
- disclosing identities of successful applications by way of press announcement(s) or otherwise;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable our Company and the Hong Kong Share Registrar to discharge their obligations to holders of securities and/or regulators and/or other purpose to which the holders of securities may from time to time agree.

(c) Transfer of personal data

Personal data held by our Company and the Hong Kong Share Registrar relating to the applicants and the holders of securities will be kept confidential but our Company and the Hong Kong Share Registrar, to the extent necessary for achieving the above purposes or any of them, make such enquiries as our Company and the Hong Kong Share Registrar consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain or provide (whether within or outside Hong Kong) the personal data of the applicants and the holders of securities to or from any and all of the following persons and entities:

- our Company's appointed agents such as financial advisers, receiving bankers and its principal share registrar and the Hong Kong Share Registrar;
- HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS (in cases where the applicants have requested for the Hong Kong Offer Shares to be deposited into CCASS);
- any agents, contractors or third party service providers who offer administrative, telecommunications, computer, payment or other services to our Company and/or the Hong Kong Share Registrar in connection with the operation of their businesses;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- the Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies; and
- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers.

By signing an Application Form or by giving **electronic application instructions** to HKSCC or by applying through **White Form eIPO**, you agree to all of the above.

(d) Access and correction of personal data

The Ordinance provides the applicants and the holders of securities with rights to ascertain whether our Company and/or the Hong Kong Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. In accordance with the Ordinance, our Company and the Hong Kong Share Registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices or the kinds of data held should be addressed to our Company for the attention of our company secretary or (as the case may be) the Hong Kong Share Registrar for the attention of the Privacy Compliance Officer (for the purposes of the Ordinance).

17. MISCELLANEOUS

(a) Commencement of dealings in the Shares

- Dealings in the Shares on the Main Board of the Stock Exchange are expected to commence on Friday, 6 July 2012.
- The Shares will be traded in board lots of 2,000 Shares.
- The stock code of the Shares is 1237.
- Any share certificates in respect of Hong Kong Offer Shares collected or received by successful applicants will not be valid if the Global Offering is terminated in accordance with the terms of the Underwriting Agreements.

(b) Shares will be eligible for admission into CCASS

- If the Stock Exchange grants the listing of and permission to deal in the Shares and the stock admission requirements of HKSCC are complied with, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

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- All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.
- Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.
- All necessary arrangements have been made for the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

25 June 2012

The Directors
Merry Garden Holdings Limited

Guotai Junan Capital Limited

Dear Sirs,

Introduction

We set out below our report on the financial information relating to Merry Garden Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group, for each of the years ended 31 December 2009, 2010 and 2011 (the "Relevant Period"), and the combined balance sheets of the Group as at 31 December 2009, 2010 and 2011, together with the notes thereto (the "Financial Information"), for inclusion in the prospectus of the Company dated 25 June 2012 (the "Prospectus").

The Company was incorporated in the Cayman Islands on 17 October 2011 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation completed on 16 April 2012 (the "Reorganisation") as detailed in the section headed "Company History and Reorganisation" in the Prospectus, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company and Green Oceans Investment Holdings Limited ("Green Oceans") because they are investment holding companies and have not carried out any business since their respective dates of incorporation and are not subject to statutory audit requirements under the relevant rules and regulations in the jurisdictions of their incorporation.

All companies now comprising the Group have adopted 31 December as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Period and the names of the respective auditors are set out in note 28 of Section C. The statutory financial statements of Fujian Zhangping Kimura Forestry Products Co., Ltd. (“Zhangping Kimura”) and Zhangping Kimura Merry Garden Wooden Structure Design and Installation Co., Ltd. (“Merry Garden Wooden Structure”) were prepared in accordance with the relevant requirements of the Accounting Standards for Business Enterprises and Accounting Regulations for Business Enterprises (the “PRC GAAP”) issued by the Ministry of Finance of the People’s Republic of China (the “PRC”). The statutory financial statements of King Wood (Hong Kong) Holding Limited (“King Wood”) were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), except that King Wood did not (1) prepare consolidated financial statements as required by Hong Kong Accounting Standard (“HKAS”) 27 — *Consolidated and Separate Financial Statements* and (2) disclose post acquisition profits less losses of subsidiaries as required by paragraph 18(4) of the Tenth Schedule of the Hong Kong Companies Ordinance.

The directors of the Company have prepared the combined financial statements of the Group for the Relevant Period in accordance with the basis of preparation set out in Section A below and the accounting policies set out in Section C below (the “Underlying Financial Statements”). The Underlying Financial Statements for each of the years ended 31 December 2009, 2010 and 2011 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements, with no adjustments made thereon, and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Respective responsibilities of directors and reporting accountants

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

Basis of opinion

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 31 December 2011.

Opinion

In our opinion, for the purpose of this report, the Financial Information, on the basis of preparation set out in Section A below gives a true and fair view of the Group's combined results and cash flows for the Relevant Period, and the state of affairs of the Group as at 31 December 2009, 2010 and 2011.

A BASIS OF PREPARATION

To rationalise the corporate structure in preparation of the listing of the Company's shares on The Stock Exchange of Hong Kong Limited, the Company was incorporated in the Cayman Islands on 17 October 2011 and the Group underwent the Reorganisation, as detailed in the section headed "Company History and Reorganisation" in the Prospectus. Upon completion of the Reorganisation, the Company became the ultimate holding company of Zhangping Kimura and Merry Garden Wooden Structure.

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

All material intra-group transactions and balances have been eliminated in preparing the Financial Information.

As of the date of this report, the Company has direct and indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

| Name of company | Place and date of incorporation/ establishment | Issued and fully paid up capital | Attributable equity interest held by the Company | | Principal activities |
|--|---|--------------------------------------|--|----------|--|
| | | | Direct | Indirect | |
| Green Oceans Investment Holdings Limited | The British Virgin Islands ("BVI") 7 November 2011 | United States Dollars ("USD") 10 | 100% | — | Investment holding |
| King Wood (Hong Kong) Holding Limited | Hong Kong 5 August 2010 | Hong Kong dollars ("HK\$") 10,000 | — | 100% | Investment holding |
| Fujian Zhangping Kimura Forestry Products Co., Ltd. 福建省漳平木村林產有限公司 (notes (i) and (iii)) | The PRC 17 December 1995 | Renminbi ("RMB") 50,000,000 | — | 100% | Manufacture and sales of outdoor wooden products |
| Zhangping Kimura Merry Garden Wooden Structure Design and Installation Co., Ltd. 漳平市木村美麗家園木結構設計安裝有限公司 (notes (ii) and (iii)) | The PRC 12 June 2010 | RMB1,000,000 | — | 100% | Engaged in projects of outdoor wooden products including the provision of design and installation services |
| Merry Garden (Shanghai) Household Co., Ltd. 美麗家園(上海)家居有限公司 (notes (ii) and (iii)) | The PRC 24 February 2012 | RMB1,000,000 | — | 100% | Sales of outdoor wooden products |

Notes:

- (i) This entity is a wholly foreign-owned enterprise established in the PRC.
- (ii) This entity is a limited liability company established in the PRC and is a wholly-owned subsidiary of Zhangping Kimura.
- (iii) The English translation of the company names is for reference only. The official names of these companies are in Chinese.

B FINANCIAL INFORMATION**1 Combined income statements**

| | <i>Section C</i> <i>Note</i> | Years ended 31 December | | |
|-----------------------------------|---------------------------------|--------------------------------|-------------------------------|-------------------------------|
| | | 2009 <i>RMB'000</i> | 2010 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
| Turnover | 2, 3 | 110,033 | 199,603 | 307,151 |
| Cost of sales | | <u>(80,576)</u> | <u>(127,719)</u> | <u>(195,247)</u> |
| Gross profit | | 29,457 | 71,884 | 111,904 |
| Other revenue | 4(a) | 3,022 | 3,073 | 3,504 |
| Other net income/(loss) | 4(b) | 57 | 1,924 | (1,686) |
| Selling and distribution expenses | | (4,482) | (5,495) | (9,233) |
| Administrative expenses | | <u>(4,891)</u> | <u>(6,663)</u> | <u>(19,653)</u> |
| Profit from operations | | 23,163 | 64,723 | 84,836 |
| Finance costs | 5(a) | <u>(1,190)</u> | <u>(1,293)</u> | <u>(3,759)</u> |
| Profit before taxation | 5 | 21,973 | 63,430 | 81,077 |
| Income tax | 6(a) | <u>(5,581)</u> | <u>(10,298)</u> | <u>(10,370)</u> |
| Profit for the year | | <u>16,392</u> | <u>53,132</u> | <u>70,707</u> |
| Earnings per share | 10 | | | |
| Basic and diluted (RMB) | | <u>0.02</u> | <u>0.06</u> | <u>0.09</u> |

The accompanying notes form part of the Financial Information.

2 Combined statements of comprehensive income

| | <i>Section C Note</i> | Years ended 31 December | | |
|---|---------------------------|--------------------------------|----------------|----------------|
| | | 2009 | 2010 | 2011 |
| | | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Profit for the year | | 16,392 | 53,132 | 70,707 |
| Other comprehensive income for the year | | | | |
| Exchange differences on translation of financial statements of subsidiaries outside the PRC, net of nil tax | | <u>—</u> | <u>327</u> | <u>1,537</u> |
| Total comprehensive income for the year | | <u>16,392</u> | <u>53,459</u> | <u>72,244</u> |

The accompanying notes form part of the Financial Information.

3 Combined balance sheets

| | <i>Section C Note</i> | At 31 December | | |
|--|---------------------------|-------------------------------|-------------------------------|-------------------------------|
| | | 2009 <i>RMB'000</i> | 2010 <i>RMB'000</i> | 2011 <i>RMB'000</i> |
| Non-current assets | | | | |
| Property, plant and equipment | 11 | 28,909 | 32,904 | 72,011 |
| Lease prepayments | 12 | 8,091 | 7,908 | 37,935 |
| Non-current prepayments for acquisitions of property, plant and equipment | | 8,670 | 13,387 | 8,947 |
| Other financial assets | 13 | — | 2,495 | 2,495 |
| Deferred tax assets | 14(b) | 1,161 | 109 | 4,815 |
| | | <u>46,831</u> | <u>56,803</u> | <u>126,203</u> |
| Current assets | | | | |
| Inventories | 15 | 45,059 | 51,869 | 51,672 |
| Current portion of lease prepayments | 12 | 183 | 183 | 812 |
| Trade and other receivables | 16 | 19,179 | 75,694 | 94,676 |
| Pledged deposits | 17 | 1,222 | 2,483 | 847 |
| Cash and cash equivalents | 18(a) | 2,344 | 2,584 | 8,202 |
| | | <u>67,987</u> | <u>132,813</u> | <u>156,209</u> |
| Current liabilities | | | | |
| Trade and other payables | 19 | 45,780 | 58,147 | 16,133 |
| Bank loans | 20 | 21,250 | 47,000 | 85,797 |
| Current portion of deferred income | 21 | 19 | 19 | 920 |
| Current taxation | 14(a) | 4,983 | 9,216 | 15,799 |
| | | <u>72,032</u> | <u>114,382</u> | <u>118,649</u> |
| Net current (liabilities)/assets | | <u>(4,045)</u> | <u>18,431</u> | <u>37,560</u> |
| Total assets less current liabilities | | <u>42,786</u> | <u>75,234</u> | <u>163,763</u> |
| Non-current liabilities | | | | |
| Non-current portion of deferred income | 21 | 903 | 884 | 17,169 |
| | | <u>903</u> | <u>884</u> | <u>17,169</u> |
| NET ASSETS | | <u>41,883</u> | <u>74,350</u> | <u>146,594</u> |
| CAPITAL AND RESERVES | | | | |
| Capital | 22 | 21,000 | 8 | 8 |
| Reserves | 23 | 20,883 | 74,342 | 146,586 |
| TOTAL EQUITY | | <u>41,883</u> | <u>74,350</u> | <u>146,594</u> |

The accompanying notes form part of the Financial Information.

4 Combined statements of changes in equity

| | <i>Section C Note</i> | Attributable to equity holders of the Company | | | | Total RMB'000 |
|--|---------------------------|---|------------|------------|----------|------------------|
| | | Capital | Exchange | Statutory | Retained | |
| | | reserve | reserve | reserve | profits | |
| | | Note 22 | Note 23(a) | Note 23(b) | | |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2009 | | 21,000 | — | 449 | 4,042 | 25,491 |
| Changes in equity for 2009: | | | | | | |
| Profit and total comprehensive income for the year | | — | — | — | 16,392 | 16,392 |
| Appropriations to statutory reserve | | — | — | 1,639 | (1,639) | — |
| | | — | — | 1,639 | 14,753 | 16,392 |
| At 31 December 2009 and 1 January 2010 | | 21,000 | — | 2,088 | 18,795 | 41,883 |
| Changes in equity for 2010: | | | | | | |
| Profit for the year | | — | — | — | 53,132 | 53,132 |
| Other comprehensive income | | — | 327 | — | — | 327 |
| Total comprehensive income for the year | | — | 327 | — | 53,132 | 53,459 |
| Appropriations to statutory reserve | | — | — | 5,293 | (5,293) | — |
| Arising from Reorganisation | 22 | (20,992) | — | — | — | (20,992) |
| | | (20,992) | 327 | 5,293 | 47,839 | 32,467 |
| At 31 December 2010 and 1 January 2011 | | 8 | 327 | 7,381 | 66,634 | 74,350 |
| Changes in equity for 2011: | | | | | | |
| Profit for the year | | — | — | — | 70,707 | 70,707 |
| Other comprehensive income | | — | 1,537 | — | — | 1,537 |
| Total comprehensive income for the year | | — | 1,537 | — | 70,707 | 72,244 |
| Appropriations to statutory reserve | | — | — | 7,593 | (7,593) | — |
| | | — | 1,537 | 7,593 | 63,114 | 72,244 |
| At 31 December 2011 | | 8 | 1,864 | 14,974 | 129,748 | 146,594 |

The accompanying notes form part of the Financial Information.

5 Combined cash flow statements

| | <i>Section C Note</i> | Years ended 31 December | | |
|---|---------------------------|--------------------------------|-----------------|-----------------|
| | | 2009 | 2010 | 2011 |
| | | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Operating activities | | | | |
| Cash generated from/(used in) operations | 18(b) | 828 | (6,813) | 70,034 |
| Income tax paid | | <u>(273)</u> | <u>(5,013)</u> | <u>(8,493)</u> |
| Net cash generated from/(used in) operating activities | | <u>555</u> | <u>(11,826)</u> | <u>61,541</u> |
| Investing activities | | | | |
| Payment for the purchase of property, plant and equipment | | (6,937) | (10,712) | (38,388) |
| Payment for lease prepayments | | — | — | (31,262) |
| Receipt of government grants to subsidise capital expenditure | | 941 | — | 18,025 |
| Payment for the purchase of other financial assets | | — | (2,495) | — |
| Interest received | | 31 | 93 | 87 |
| Proceeds for disposal of property, plant and equipment | | <u>—</u> | <u>—</u> | <u>280</u> |
| Net cash used in investing activities | | <u>(5,965)</u> | <u>(13,114)</u> | <u>(51,258)</u> |
| Financing activities | | | | |
| Proceeds from new bank loans | | 24,050 | 55,950 | 143,263 |
| Repayment of bank loans | | (19,700) | (30,200) | (104,466) |
| Interest paid | | (1,276) | (1,810) | (4,765) |
| Changes in amount due to a director | | <u>2,383</u> | <u>1,339</u> | <u>(38,681)</u> |
| Net cash generated from/(used in) financing activities | | <u>5,457</u> | <u>25,279</u> | <u>(4,649)</u> |
| Net increase in cash and cash equivalents | | 47 | 339 | 5,634 |
| Cash and cash equivalents at beginning of the year | | 2,299 | 2,344 | 2,584 |
| Effect of foreign exchange rate changes | | <u>(2)</u> | <u>(99)</u> | <u>(16)</u> |
| Cash and cash equivalents at end of the year | 18(a) | <u>2,344</u> | <u>2,584</u> | <u>8,202</u> |

The accompanying notes form part of the Financial Information.

C NOTES TO THE FINANCIAL INFORMATION**1 Significant accounting policies****(a) Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with IFRSs, as issued by the IASB. IFRSs include International Accounting Standards (“IAS”) and all applicable interpretations. Further details of the significant accounting policies adopted are set out in the remainder of this Section C.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised IFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 December 2011. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning 1 January 2011 are set out in note 30.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of preparation and presentation

The Financial Information comprises the Company and its subsidiaries and has been prepared on the basis as explained in Section A.

(c) Basis of measurement

The Financial Information is presented in RMB, rounded to the nearest thousand. It is prepared on the historical cost basis.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 27.

(e) *Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

(f) *Other investments in equity securities*

The Group's policies for investments in equity securities, other than investments in subsidiaries are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in equity securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends earned on these investments.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the combined balance sheet at cost less impairment losses (see note 1(k)(i)).

Investments in equity securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. Dividend income from these investments is recognised in profit or loss. When these investments are derecognised or impaired (see note 1(k)(i)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) *Derivative financial instruments*

Derivative financial instruments are recognised initially at fair value. At the end of each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(h) *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(k)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(w)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over the estimated useful lives as follows:

| | | |
|-----------------------------------|---|---|
| Buildings | — | The shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion |
| Plant and machinery | — | 10 years |
| Furniture, fittings and equipment | — | 5 years |
| Motor vehicles | — | 5 years |

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) *Construction in progress*

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 1(k)(ii)). Cost comprises direct costs of construction and installation during the construction period. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of the construction in progress until it is substantially completed and ready for its intended use.

(j) *Leased assets*

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) *Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(k) *Impairment of assets*

(i) *Impairment of investments in subsidiaries, trade and other receivables and investment in equity securities*

Investments in subsidiaries, trade and other receivables and investment in equity securities that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in subsidiaries, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(k)(ii).
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.
- For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For other receivables carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated recoverable amount.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- lease prepayments; and
- non-current prepayments for acquisitions of property, plant and equipment.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(l) *Inventories*

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula, and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) ***Construction contracts***

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 1(u)(ii). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the combined balance sheets as the “Gross amount due from customers for contract work” under “Trade and other receivables” or the “Gross amount due to customers for contract work” under “Trade and other payables”, as applicable. Progress billings not yet paid by the customer are presented as trade receivables under “Trade and other receivables”. Amounts received before the related work is performed are presented as “Receipt in advance” under “Trade and other payables”.

(n) ***Trade and other receivables***

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(k)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(o) ***Interest-bearing borrowings***

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using an effective interest method.

(p) *Trade and other payables*

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(r) *Employee benefits*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(s) *Income tax*

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) ***Provisions and contingent liabilities***

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Sale of goods*

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) *Contract revenue*

When the outcome of a contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the physical completion proportion of the contract work.

When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(iii) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased assets.

(iv) *Interest income*

Interest income from bank deposits is recognised as it accrues using the effective interest method.

(v) *Government grants*

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset.

(v) *Translation of foreign currencies*

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations with functional currency other than Renminbi are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Balance sheet items are translated into Renminbi at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation with functional currency other than Renminbi, the cumulative amount of the exchange differences relating to that operation with functional currency other than Renminbi is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(w) ***Borrowing costs***

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(x) ***Related parties***

For the purposes of this Financial Information, a related party is a person or entity that is related to the Group.

- (i) A person, or a close member of that person's family, is related to the Group if that person:
- (1) has control or joint control over the Group;
 - (2) has significant influence over the Group; or
 - (3) is a member of the key management personnel of the Group or the Group's parent.
- (ii) An entity is related to the Group if any of the following conditions applies:
- (1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

- (3) Both entities are joint ventures of the same third party.
- (4) One entity is a joint venture of a third party and the other entity is an associate of the same third party or vice versa.
- (5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (6) The entity is controlled or jointly-controlled by a person identified in (i).
- (7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(y) ***Segment reporting***

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Turnover

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

Turnover represents

- (i) the sales value of goods sold to customers less returns, discounts, and value added taxes and other sales tax; and
- (ii) contract revenue derived from projects of outdoor wooden products including the provision of design and installation services.

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

| | Years ended 31 December | | |
|---|--------------------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Sales of outdoor wooden products | 110,033 | 197,586 | 299,004 |
| Contract revenue derived from projects of outdoor wooden products including the provision of design and installation services | <u>—</u> | <u>2,017</u> | <u>8,147</u> |
| | <u>110,033</u> | <u>199,603</u> | <u>307,151</u> |

Individual external customers accounting for 10% or more of the Group's revenue for each of the years ended 31 December 2009, 2010 and 2011 are as follows:

| | Years ended 31 December | | |
|------------|--------------------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Customer A | 30,338 | 44,534 | 46,668 |
| Customer B | 23,984 | 13,009 | 14,004 |
| Customer C | 19,480 | 18,246 | — |
| Customer D | 11,991 | — | — |
| Customer E | <u>—</u> | <u>17,272</u> | <u>40,797</u> |
| | <u>85,793</u> | <u>93,061</u> | <u>101,469</u> |

Details of concentrations of credit risk arising from these customers are set out in note 26(a).

Further details regarding the Group's principal activities are disclosed in note 3.

3 Segment reporting

The Group manages its businesses by its operating units in the PRC, which are engaged in the manufacture and sales of outdoor wooden products and projects of outdoor wooden products including the provision of design and installation services. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified three reportable

segments, namely Zhangping Kimura, Merry Garden Wooden Structure and Merry Garden Flagship Store, which is a branch office of Zhangping Kimura. No operating segments have been aggregated to form the above reportable segments.

- Zhangping Kimura: manufacturing and sales of outdoor wooden products to both domestic and overseas customers.
- Merry Garden Wooden Structure: engaged in projects of outdoor wooden products including the provision of design and installation services to domestic customers.
- Merry Garden Flagship Store: domestic retail sales of outdoor wooden products.

(a) *Segment results*

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

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

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the Relevant Period is set out below:

| | Year ended 31 December 2009 | | | |
|--|------------------------------------|--|--|----------------|
| | Zhangping Kimura | Merry Garden Wooden Structure | Merry Garden Flagship Store | Total |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Reportable segment revenue | <u>110,033</u> | <u>—</u> | <u>—</u> | <u>110,033</u> |
| Reportable segment profit (profit after taxation) | <u>16,392</u> | <u>—</u> | <u>—</u> | <u>16,392</u> |

| | Year ended 31 December 2010 | | | |
|--|---------------------------------------|--|--|-------------------------|
| | Zhangping Kimura <i>RMB'000</i> | Merry Garden Wooden Structure <i>RMB'000</i> | Merry Garden Flagship Store <i>RMB'000</i> | Total <i>RMB'000</i> |
| Revenue derived from the Group's external customers | 197,586 | 2,017 | — | 199,603 |
| Inter-segment revenue | <u>821</u> | <u>—</u> | <u>—</u> | <u>821</u> |
| Reportable segment revenue | <u>198,407</u> | <u>2,017</u> | <u>—</u> | <u>200,424</u> |
| Reportable segment profit (profit after taxation) | <u>52,930</u> | <u>203</u> | <u>—</u> | <u>53,133</u> |

| | Year ended 31 December 2011 | | | |
|--|---------------------------------------|--|--|-------------------------|
| | Zhangping Kimura <i>RMB'000</i> | Merry Garden Wooden Structure <i>RMB'000</i> | Merry Garden Flagship Store <i>RMB'000</i> | Total <i>RMB'000</i> |
| Revenue derived from the Group's external customers | 298,490 | 8,147 | 514 | 307,151 |
| Inter-segment revenue | <u>7,503</u> | <u>—</u> | <u>—</u> | <u>7,503</u> |
| Reportable segment revenue | <u>305,993</u> | <u>8,147</u> | <u>514</u> | <u>314,654</u> |
| Reportable segment profit (profit after taxation) | <u>75,935</u> | <u>444</u> | <u>194</u> | <u>76,573</u> |

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

| | Years ended 31 December | | |
|--|-------------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 |
| Revenue | | | |
| Reportable segment revenue | 110,033 | 200,424 | 314,654 |
| Elimination of inter-segment revenue | — | (821) | (7,503) |
| Combined turnover | <u>110,033</u> | <u>199,603</u> | <u>307,151</u> |
| Profit | | | |
| Reportable segment profit derived from the Group's external customers | 16,392 | 53,133 | 76,573 |
| Elimination of inter-segment profits | — | — | (1,015) |
| Unallocated head office and corporate expenses | — | (1) | (4,851) |
| Combined profit after taxation | <u>16,392</u> | <u>53,132</u> | <u>70,707</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.

| | Years ended 31 December | | |
|-------------------------------------|-------------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 |
| The PRC | 37 | 75,787 | 148,956 |
| North America | 68,737 | 73,545 | 101,220 |
| Europe | 10,057 | 12,376 | 39,613 |
| Asia Pacific (exclusive of the PRC) | <u>31,202</u> | <u>37,895</u> | <u>17,362</u> |
| | <u>110,033</u> | <u>199,603</u> | <u>307,151</u> |

4 Other revenue and other net income/(loss)

| | Years ended 31 December | | |
|----------------------------------|-------------------------|--------------|--------------|
| | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 |
| (a) Other revenue | | | |
| Interest income on bank deposits | 31 | 93 | 87 |
| Government subsidies | 2,988 | 2,974 | 3,307 |
| Rental income | <u>3</u> | <u>6</u> | <u>110</u> |
| | <u>3,022</u> | <u>3,073</u> | <u>3,504</u> |

The Group was entitled to unconditional government subsidies for compensation of the Group's expenses incurred of RMB2,969,000, RMB2,955,000 and RMB2,468,000 for the years ended 31 December 2009, 2010 and 2011, respectively. These government subsidies were recognised as other revenue when they became receivable.

The Group was entitled to and received conditional government subsidies of RMB941,000 and RMB18,025,000 for the years ended 31 December 2009 and 2011, respectively. The Group recognised the amounts as deferred income that compensate the Group for the cost of its land use right and the cost of infrastructure development, respectively. Government subsidies of RMB19,000, RMB19,000 and RMB839,000 were recognised as other revenue for the years ended 31 December 2009, 2010 and 2011 respectively, which is on a systematic basis over the useful life of the relevant assets (note 21).

| | Years ended 31 December | | |
|---|-------------------------|--------------|----------------|
| | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 |
| (b) Other net income/(loss) | | | |
| Net foreign exchange loss | (1,972) | (1,826) | (970) |
| Net loss on disposal of property, plant and equipment | — | — | (243) |
| Changes in fair value of derivative financial instruments | 2,402 | 4,186 | (161) |
| Others | <u>(373)</u> | <u>(436)</u> | <u>(312)</u> |
| | <u>57</u> | <u>1,924</u> | <u>(1,686)</u> |

5 Profit before taxation

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

| | Years ended 31 December | | |
|---|--------------------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| (a) Finance costs | | | |
| Interest expense on bank loans wholly repayable within five years | 1,276 | 1,810 | 4,765 |
| Less: Interest expense capitalised into construction in progress* | <u>(86)</u> | <u>(517)</u> | <u>(1,006)</u> |
| | <u>1,190</u> | <u>1,293</u> | <u>3,759</u> |
| (b) Staff costs | | | |
| Salaries, wages and other benefits | 8,175 | 11,606 | 18,302 |
| Contributions to defined contribution retirement schemes | <u>330</u> | <u>393</u> | <u>1,065</u> |
| | <u>8,505</u> | <u>11,999</u> | <u>19,367</u> |

* The borrowing costs have been capitalised at a rate of 6.64%, 5.65% and 7.11% per annum for the years ended 31 December 2009, 2010 and 2011, respectively.

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 Relevant Period. Contributions to the Schemes vest immediately. Under the Schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

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

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

| | Years ended 31 December | | |
|---|-------------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| (c) Other items | | | |
| Cost of inventories [#] (note 15(b)) | 80,576 | 127,719 | 195,247 |
| Depreciation of property, plant and equipment | 2,394 | 2,517 | 4,204 |
| Amortisation of lease prepayments | 183 | 183 | 606 |
| Research and development costs | 5,735 | 7,264 | 9,775 |
| Auditors' remuneration | <u>27</u> | <u>63</u> | <u>1,567</u> |

[#] Cost of inventories includes RMB13,431,000, RMB17,674,000 and RMB22,241,000 for the years ended 31 December 2009, 2010 and 2011, respectively 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 combined income statements

(a) *Taxation in the combined income statements represents:*

| | Years ended 31 December | | |
|--|-------------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Current tax — PRC corporate income tax | | | |
| Provision for the year | 5,146 | 9,246 | 15,076 |
| Under-provision in respect of prior years | <u>65</u> | <u>—</u> | <u>—</u> |
| | 5,211 | 9,246 | 15,076 |
| | ----- | ----- | ----- |
| Deferred tax | | | |
| Origination and reversal of temporary differences (note 14(b)) | 370 | 1,052 | (4,706) |
| | <u>370</u> | <u>1,052</u> | <u>(4,706)</u> |
| | <u>5,581</u> | <u>10,298</u> | <u>10,370</u> |

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

| | Years ended 31 December | | |
|--|-------------------------|---------------|---------------|
| | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 |
| Profit before taxation | <u>21,973</u> | <u>63,430</u> | <u>81,077</u> |
| Notional tax on profit before taxation, calculated at the rates applicable in the tax jurisdictions concerned (note (i)) | 5,494 | 15,858 | 20,682 |
| Effect of PRC tax concession (note (ii)) | — | (5,600) | (9,926) |
| Effect of non-deductible expenses | 22 | 40 | 836 |
| Effect of research and development expense bonus deduction (note (iii)) | — | — | (1,222) |
| Under-provision in respect of prior years | <u>65</u> | <u>—</u> | <u>—</u> |
| Actual tax expense | <u>5,581</u> | <u>10,298</u> | <u>10,370</u> |

Notes:

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

No provision was made for Hong Kong Profits Tax as the Group did not earn any assessable profits subject to Hong Kong Profits Tax during the Relevant Period. The payments of dividends by the subsidiary incorporated in Hong Kong are not subject to any Hong Kong withholding tax.

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

- (ii) Zhangping Kimura applied and was approved for the High and New Technology Enterprise ("HNTE") qualification under the PRC Corporate Income Tax Law and its relevant regulations during 2010, and therefore is entitled to the preferential income tax rate of 15% for a period of three years from 2010 to 2012.
- (iii) According to the PRC Corporate Income Tax Law and its relevant regulations, qualified research and development expenses are subject to income tax deductions at 150% on the amount actually incurred.

7 Directors' remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

| | Year ended 31 December 2009 | | | | |
|-------------------------------|-----------------------------|---|-----------------------|---------------------------------|----------------|
| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Executive directors | | | | | |
| Wu Zheyang | — | 270 | 4 | — | 274 |
| Wu Qingshan | — | 84 | 3 | 2 | 89 |
| Xie Qingmei | — | 48 | 3 | — | 51 |
| | — | 402 | 10 | 2 | 414 |
| Non-executive director | | | | | |
| Wu Dongping | — | 60 | 3 | 2 | 65 |
| | — | 462 | 13 | 4 | 479 |

| | Year ended 31 December 2010 | | | | |
|-------------------------------|-----------------------------|---|-----------------------|---------------------------------|----------------|
| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Executive directors | | | | | |
| Wu Zheyang | — | 270 | 6 | — | 276 |
| Wu Qingshan | — | 84 | 4 | 3 | 91 |
| Xie Qingmei | — | 91 | 4 | — | 95 |
| | — | 445 | 14 | 3 | 462 |
| Non-executive director | | | | | |
| Wu Dongping | — | 144 | 4 | 2 | 150 |
| | — | 589 | 18 | 5 | 612 |

| | Year ended 31 December 2011 | | | | |
|-------------------------------|-----------------------------|---|-----------------------|---------------------------------|----------------|
| | Directors' fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Executive directors | | | | | |
| Wu Zheyang | — | 270 | 8 | 3 | 281 |
| Wu Qingshan | — | 97 | 5 | 4 | 106 |
| Xie Qingmei | — | 82 | 5 | 3 | 90 |
| | — | 449 | 18 | 10 | 477 |
| Non-executive director | | | | | |
| Wu Dongping | — | 144 | 5 | 4 | 153 |
| | — | 593 | 23 | 14 | 630 |

Lam Hin Chi, Jin Zhongwei and Su Wenqiang were appointed by the Company as independent non-executive directors on 15 June 2012. They did not receive any remuneration from the Group during the Relevant Period.

During the Relevant Period, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

8 Individuals with highest emoluments

Of the five individuals with the highest emoluments, four, four and four are directors for the years ended 31 December 2009, 2010 and 2011, respectively, whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the remaining individuals are as follows:

| | Years ended 31 December | | |
|---------------------------------|--------------------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Salaries and other emoluments | 522 | 665 | 773 |
| Discretionary bonuses | 16 | 22 | 23 |
| Retirement scheme contributions | <u>5</u> | <u>8</u> | <u>13</u> |
| | <u>543</u> | <u>695</u> | <u>809</u> |

The above individuals' emoluments are within the following band:

| | Years ended 31 December | | |
|----------------------|----------------------------------|----------------------------------|----------------------------------|
| | 2009 | 2010 | 2011 |
| | <i>Number of individuals</i> | <i>Number of Individuals</i> | <i>Number of individuals</i> |
| Nil to HK\$1,000,000 | <u>5</u> | <u>5</u> | <u>5</u> |

9 Dividends

No dividends have been declared or paid by the Company since its incorporation.

10 Earnings per share

The calculation of basic earnings per share for the Relevant Period is based on the profit attributable to equity shareholders of the Company for each of the years ended 31 December 2009, 2010 and 2011 and on the assumption that 820,000,000 shares of the Company are in issue and issuable, comprising 1,000,000 shares in issue at the date of the Prospectus and 819,000,000 shares to be issued pursuant to the capitalisation issue as set out in Appendix VI to the Prospectus as if the shares were outstanding throughout the entire Relevant Period.

There were no potential dilutive ordinary shares during the Relevant Period and, therefore, diluted earnings per share are the same as the basic earnings per share.

11 Property, plant and equipment

| | Buildings <i>RMB'000</i> | Plant and machinery <i>RMB'000</i> | Furniture, fittings and equipment <i>RMB'000</i> | Motor vehicles <i>RMB'000</i> | Construction in progress <i>RMB'000</i> | Total <i>RMB'000</i> |
|----------------------------------|-----------------------------|--|--|-------------------------------------|---|-------------------------|
| Cost: | | | | | | |
| At 1 January 2009 | 4,451 | 5,546 | 1,088 | 2,390 | 5,285 | 18,760 |
| Additions | — | 894 | 58 | — | 15,461 | 16,413 |
| Transfers | <u>19,440</u> | <u>—</u> | <u>441</u> | <u>—</u> | <u>(19,881)</u> | <u>—</u> |
| At 31 December 2009 | <u>23,891</u> | <u>6,440</u> | <u>1,587</u> | <u>2,390</u> | <u>865</u> | <u>35,173</u> |
| At 1 January 2010 | 23,891 | 6,440 | 1,587 | 2,390 | 865 | 35,173 |
| Additions | — | 1,939 | 46 | 434 | 4,093 | 6,512 |
| Transfers | <u>603</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>(603)</u> | <u>—</u> |
| At 31 December 2010 | <u>24,494</u> | <u>8,379</u> | <u>1,633</u> | <u>2,824</u> | <u>4,355</u> | <u>41,685</u> |
| At 1 January 2011 | 24,494 | 8,379 | 1,633 | 2,824 | 4,355 | 41,685 |
| Additions | 21,432 | 9,070 | 1,124 | 809 | 11,399 | 43,834 |
| Transfers | 15,076 | 247 | — | — | (15,323) | — |
| Disposals | <u>—</u> | <u>(870)</u> | <u>(30)</u> | <u>(588)</u> | <u>—</u> | <u>(1,488)</u> |
| At 31 December 2011 | <u>61,002</u> | <u>16,826</u> | <u>2,727</u> | <u>3,045</u> | <u>431</u> | <u>84,031</u> |
| Accumulated depreciation: | | | | | | |
| At 1 January 2009 | 1,096 | 1,366 | 300 | 1,108 | — | 3,870 |
| Charge for the year | <u>1,175</u> | <u>544</u> | <u>221</u> | <u>454</u> | <u>—</u> | <u>2,394</u> |
| At 31 December 2009 | <u>2,271</u> | <u>1,910</u> | <u>521</u> | <u>1,562</u> | <u>—</u> | <u>6,264</u> |
| At 1 January 2010 | 2,271 | 1,910 | 521 | 1,562 | — | 6,264 |
| Charge for the year | <u>1,205</u> | <u>661</u> | <u>215</u> | <u>436</u> | <u>—</u> | <u>2,517</u> |
| At 31 December 2010 | <u>3,476</u> | <u>2,571</u> | <u>736</u> | <u>1,998</u> | <u>—</u> | <u>8,781</u> |

| | Buildings | Plant and machinery | Furniture, fittings and equipment | Motor vehicles | Construction in progress | Total |
|------------------------------|------------------|--------------------------------|--|---------------------------|-------------------------------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| At 1 January 2011 | 3,476 | 2,571 | 736 | 1,998 | — | 8,781 |
| Charge for the year | 2,268 | 1,268 | 321 | 347 | — | 4,204 |
| Written back on disposals | <u>—</u> | <u>(431)</u> | <u>(27)</u> | <u>(507)</u> | <u>—</u> | <u>(965)</u> |
| At 31 December 2011 | <u>5,744</u> | <u>3,408</u> | <u>1,030</u> | <u>1,838</u> | <u>—</u> | <u>12,020</u> |
| Net book value: | | | | | | |
| At 31 December 2009 | <u>21,620</u> | <u>4,530</u> | <u>1,066</u> | <u>828</u> | <u>865</u> | <u>28,909</u> |
| At 31 December 2010 | <u>21,018</u> | <u>5,808</u> | <u>897</u> | <u>826</u> | <u>4,355</u> | <u>32,904</u> |
| At 31 December 2011 | <u>55,258</u> | <u>13,418</u> | <u>1,697</u> | <u>1,207</u> | <u>431</u> | <u>72,011</u> |

- (a) Buildings which are held for own use are situated in the PRC. At 31 December 2009, 2010 and 2011, buildings with net book value of RMB3,144,000, RMB2,933,000 and RMB31,105,000 respectively were mortgaged to banks for certain banking facilities granted to the Group (see note 20(c)).
- (b) Construction in progress comprises costs incurred on property, plant and equipment not yet completed at the end of the respective accounting period.
- (c) Zhangping Kimura has started the construction of a manufacturing complex on a land in Zone C of approximately 90,000 square meters ("Land A") after obtained the Planning Permit for Construction Works and Construction Works Commencement Permits issued by the Town Planning and Construction Bureau of Zhangping dated 15 December 2006 and 18 July 2007 respectively. Dwelling and leveling costs of approximately RMB7,968,000 had been incurred on Land A as at both 31 December 2009 and 2010 which amounts are included as non-current prepayments for acquisition of property, plant and equipment in the combined balance sheets. Construction in progress with carrying amount of RMB865,000 and RMB4,355,000 as at 31 December 2009 and 2010, respectively and buildings with net book value of RMB18,476,000 and RMB18,085,000 as at 31 December 2009 and 2010, respectively were situated on Land A. In March 2011, Zhangping Kimura obtained the land use right certificate Land A.

In January 2010, the Zhangping Kimura entered into an agreement (“the Agreement”) with the developer of Fushan Industrial Zone that is authorized by the relevant land authorities (“the Developer”). Pursuant to the Agreement, the Developer granted Zhangping Kimura the right to commence dwelling and leveling activities on another piece of land in Zone C of approximately 57,000 square meters (“Land B”).

For further expansion, the Group intends to acquire Land B through land auction procedure to be conducted by the relevant land authorities, The Group has incurred dwelling and leveling costs on Land B of approximately RMB8,750,000 as at 31 December 2011 which amount is included as non-current prepayments for acquisition of property, plant and equipment in the combined balance sheets. Pursuant to the Agreement, dwelling and leveling costs would be repaid in full by the Developer to the Group in case the Group fails to obtain the land use right through the land auction procedure. As at 31 December 2011, since the land auction procedure has not been commenced by the relevant land authorities, the Group is unable to enter into the procedure for procuring the relevant land use right certificate of Land B. In view of the Agreement (in particular, the repayment clause) and the PRC legal opinion obtained from the Company’s PRC legal counsel, the directors of the Company consider that failure in land auction procedure should have no significant adverse impact to the Group’s operations.

12 Lease prepayments

| | At 31 December | | |
|---------------------------------|----------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| At 1 January | 8,457 | 8,274 | 8,091 |
| Add: Additions for the year | — | — | 31,262 |
| Less: Amortisation for the year | <u>(183)</u> | <u>(183)</u> | <u>(606)</u> |
| | <u>8,274</u> | <u>8,091</u> | <u>38,747</u> |
| Represented by: | | | |
| Current portion | 183 | 183 | 812 |
| Non-current portion | <u>8,091</u> | <u>7,908</u> | <u>37,935</u> |
| | <u>8,274</u> | <u>8,091</u> | <u>38,747</u> |

The lease prepayments represent cost of obtaining the land use rights in respect of land located in the PRC, on which the Group built its production premises and buildings. These leases expire between 2047 and 2061.

At 31 December 2009, 2010 and 2011, land use rights with an aggregate carrying amount of RMB8,274,000, RMB8,091,000 and RMB38,141,000, respectively were pledged as securities for certain banking facilities granted to the Group (see note 20(c)).

13 Other financial assets

| | At 31 December | | |
|--|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Available-for-sale equity securities: | | | |
| Unlisted equity securities, at cost | <u>—</u> | <u>2,495</u> | <u>2,495</u> |

The above financial assets represent investment in equity securities of a PRC local bank in Zhangping City, Fujian Province.

14 Income tax in the combined balance sheets

(a) *Current taxation in the combined balance sheets represents:*

| | At 31 December | | |
|-------------------------------|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| At 1 January | 45 | 4,983 | 9,216 |
| Charged to profit or loss | 5,211 | 9,246 | 15,076 |
| PRC corporate income tax paid | <u>(273)</u> | <u>(5,013)</u> | <u>(8,493)</u> |
| | <u>4,983</u> | <u>9,216</u> | <u>15,799</u> |

(b) *Deferred tax assets and liabilities recognised*

The components of deferred tax assets/(liabilities) recognised in the combined balance sheets and the movements during the Relevant Period are as follows:

| | Deferred income <i>RMB'000</i> | Unrealised profits on inventories <i>RMB'000</i> | Unrealised (gain)/loss on derivative financial instruments <i>RMB'000</i> | Total <i>RMB'000</i> |
|--------------------------------------|--------------------------------------|---|--|-------------------------|
| Deferred tax arising from: | | | | |
| At 1 January 2009 | — | — | 1,531 | 1,531 |
| Credited/(charged) to profit or loss | <u>231</u> | <u>—</u> | <u>(601)</u> | <u>(370)</u> |
| At 31 December 2009 | <u>231</u> | <u>—</u> | <u>930</u> | <u>1,161</u> |
| At 1 January 2010 | 231 | — | 930 | 1,161 |
| Charged to profit or loss | <u>(5)</u> | <u>—</u> | <u>(1,047)</u> | <u>(1,052)</u> |
| At 31 December 2010 | <u>226</u> | <u>—</u> | <u>(117)</u> | <u>109</u> |
| At 1 January 2011 | 226 | — | (117) | 109 |
| Credited to profit or loss | <u>4,296</u> | <u>338</u> | <u>72</u> | <u>4,706</u> |
| At 31 December 2011 | <u>4,522</u> | <u>338</u> | <u>(45)</u> | <u>4,815</u> |

(c) *Deferred tax liabilities not recognised*

As at 31 December 2010 and 2011, taxable temporary differences relating to the undistributed profits of the Group's PRC subsidiaries to overseas holding company amounted to RMB62,013,000 and RMB130,993,000, respectively. No deferred tax liabilities in respect of the 10%, or 5% should tax treaty/arrangement benefit be available, PRC dividend withholding tax on these undistributed profits have been recognised as the Company controls the dividend policy of these subsidiaries and the directors have determined that these profits are not likely to be distributed in the foreseeable future.

15 Inventories(a) *Inventories in the combined balance sheets comprise:*

| | At 31 December | | |
|------------------|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Raw materials | 38,722 | 39,057 | 19,644 |
| Work in progress | 3,054 | 3,218 | 21,073 |
| Finished goods | <u>3,283</u> | <u>9,594</u> | <u>10,955</u> |
| | <u>45,059</u> | <u>51,869</u> | <u>51,672</u> |

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

| | At 31 December | | |
|-------------------------------------|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Carrying amount of inventories sold | <u>80,576</u> | <u>127,719</u> | <u>195,247</u> |

16 Trade and other receivables

| | At 31 December | | |
|---|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade receivables | 8,912 | 43,616 | 81,892 |
| Deposits and prepayments (notes (i) and (ii)) | 5,959 | 22,204 | 9,516 |
| Amounts due from related companies (note 25(c)) | — | 7,329 | 508 |
| Amount due from a director (note 25(d)) | — | — | 480 |
| Derivative financial instruments (note 26(d)) | 546 | 521 | 305 |
| Gross amount due from customers for contract work (note (iii)) | — | 1,091 | 276 |
| Other receivables | <u>3,762</u> | <u>933</u> | <u>1,699</u> |
| | <u>19,179</u> | <u>75,694</u> | <u>94,676</u> |

Notes:

- (i) Included in the deposits as at 31 December 2009, 2010 and 2011 were guarantee deposits of RMB1,000,000, RMB4,000,000 and RMB3,580,000 respectively with guarantee companies providing guarantee services in relation to the Group's bank loans (note 20(c)). The guarantee deposits were not expected to be recovered within one year.
- (ii) Prepayments consist of advance payments made to suppliers for purchases of raw materials.
- (iii) The aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in the gross amount due from customers for contract work at 31 December 2009, 2010 and 2011 are RMBnil, RMB1,261,000 and RMB7,193,000 respectively. These balances include retention receivables at 31 December 2009, 2010 and 2011 of RMBnil, RMB134,000 and RMB53,000 respectively, of which RMBnil, RMB35,000 and RMBnil are expected to be recovered after more than one year.

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

Ageing analysis

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

| | At 31 December | | |
|---|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Current | 7,709 | 38,708 | 73,040 |
| Less than 1 month past due | 587 | 1,925 | 7,616 |
| 1 to 3 months past due | 218 | 1,674 | 239 |
| More than 3 months but less than 12 months past due | 260 | 1,174 | 997 |
| More than 12 months past due | 138 | 135 | — |
| Amounts past due | 1,203 | 4,908 | 8,852 |
| | <u>8,912</u> | <u>43,616</u> | <u>81,892</u> |

Trade receivables are normally due within 60 to 90 days from the date of billing. Further details of the Group's credit policy are set out in note 26(a).

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.

17 Pledged deposits

Pledged deposits with banks have been placed as security for banking facilities and financial derivative contracts issued by banks to the Group (see note 20(c), note 16 and note 19(b)).

18 Cash and cash equivalents

(a) *Cash and cash equivalents in the combined balance sheets and combined cash flow statements comprise:*

| | At 31 December | | |
|--------------------------|----------------|--------------|--------------|
| | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 |
| Cash at bank and in hand | <u>2,344</u> | <u>2,584</u> | <u>8,202</u> |

As at 31 December 2009, 2010 and 2011, cash and cash equivalents in the amount of RMB1,220,000, RMB2,378,000 and RMB7,437,000 respectively are denominated in RMB and are deposited in the PRC in the ordinary course of business. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

(b) *Reconciliation of profit before taxation to cash generated from/(used in) operations:*

| | Note | Years ended 31 December | | |
|---|------|-------------------------|-----------------|-----------------|
| | | 2009 RMB'000 | 2010 RMB'000 | 2011 RMB'000 |
| Profit before taxation | | 21,973 | 63,430 | 81,077 |
| Adjustments for: | | | | |
| — Interest expense | 5(a) | 1,190 | 1,293 | 3,759 |
| — Depreciation | 11 | 2,394 | 2,517 | 4,204 |
| — Amortisation of lease prepayments | 12 | 183 | 183 | 606 |
| — Amortisation of deferred income | 21 | (19) | (19) | (839) |
| — Net foreign exchange (gain)/loss | | (31) | 774 | 1,888 |
| — Interest income | 4(a) | (31) | (93) | (87) |
| — Changes in fair value of derivative financial instruments | 4(b) | (2,402) | (4,186) | 161 |
| — Net loss on disposal of property, plant and equipment | 4(b) | — | — | 243 |
| Changes in working capital: | | | | |
| — (Increase)/decrease in inventories | | (33,461) | (6,810) | 197 |
| — Decrease/(increase) in trade and other receivables | | 2,939 | (57,117) | (20,092) |
| — Increase/(decrease) in trade and other payables | | 8,777 | (5,524) | (2,719) |
| — (Increase)/decrease in pledged deposits | | <u>(684)</u> | <u>(1,261)</u> | <u>1,636</u> |
| Cash generated from/(used in) operations | | <u>828</u> | <u>(6,813)</u> | <u>70,034</u> |

19 Trade and other payables

| | At 31 December | | |
|---|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade payables (note 19(a)) | 17,732 | 13,348 | 9,723 |
| Amount due to the Ultimate Controlling Shareholder (note 25(f)) | 16,793 | 39,124 | 443 |
| Amounts due to related companies (note 25(e)) | 882 | — | — |
| Receipts in advance | 16 | 1,541 | 167 |
| Other payables and accruals (note 19(b)) | <u>10,357</u> | <u>4,134</u> | <u>5,800</u> |
| | <u>45,780</u> | <u>58,147</u> | <u>16,133</u> |

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

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

| | At 31 December | | |
|---------------------------------------|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Due within 1 month or on demand | 10,351 | 9,746 | 2,893 |
| Due after 1 month but within 3 months | <u>7,381</u> | <u>3,602</u> | <u>6,830</u> |
| | <u>17,732</u> | <u>13,348</u> | <u>9,723</u> |

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

| | At 31 December | | |
|--|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Salaries, wages, bonus and other accrued benefits | 977 | 1,798 | 1,733 |
| Payables for the purchase of property, plant and equipment | 3,400 | 2 | 919 |
| Other tax payables | 61 | 592 | 639 |
| Derivative financial instruments (note 26(d)) | 4,267 | 55 | — |
| Others | <u>1,652</u> | <u>1,687</u> | <u>2,509</u> |
| | <u>10,357</u> | <u>4,134</u> | <u>5,800</u> |

20 Bank loans

(a) At 31 December 2009, 2010 and 2011, the bank loans were repayable as follows:

| | At 31 December | | |
|---------------|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Within 1 year | <u>21,250</u> | <u>47,000</u> | <u>85,797</u> |

(b) At 31 December 2009, 2010 and 2011, the bank loans were secured as follows:

| | At 31 December | | |
|-------------------------|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Bank loans (note 20(c)) | | | |
| — secured | 13,850 | 12,900 | 65,918 |
| — unsecured | <u>7,400</u> | <u>34,100</u> | <u>19,879</u> |
| | <u>21,250</u> | <u>47,000</u> | <u>85,797</u> |

(c) The amounts of banking facilities available to the Group and the utilisation at 31 December 2009, 2010 and 2011 are set out as follows:

| | At 31 December | | |
|------------------------------|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Banking facilities available | | | |
| — secured | 13,850 | 12,900 | 144,500 |
| — unsecured | <u>30,200</u> | <u>51,700</u> | <u>27,600</u> |
| | <u>44,050</u> | <u>64,600</u> | <u>172,100</u> |
| Amounts utilised | | | |
| — bank loans | <u>21,250</u> | <u>47,000</u> | <u>85,797</u> |

The secured banking facilities were secured by the carrying values of the following assets:

| | At 31 December | | |
|-----------------------------|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Pledged deposits (note 17) | — | 1,136 | — |
| Buildings (note 11) | 3,144 | 2,933 | 31,105 |
| Lease prepayments (note 12) | <u>8,274</u> | <u>8,091</u> | <u>38,141</u> |
| | <u>11,418</u> | <u>12,160</u> | <u>69,246</u> |

At 31 December 2009, 2010 and 2011, certain of the Group's utilised banking facilities were secured by personal guarantee from Wu Zheyang at nil fee, corporate guarantee from Longyan Jingyan Wood Industry Co, Ltd. and Zhangping Jiupengxi Ecological Tourism Development Company Limited, which are controlled by Wu Zheyang, at nil fee and personal properties owned by Wu Zheyang, Wu Dongping, Wu Jiao Lan, Liu Ying Yan and Han Jin at nil fee.

At 31 December 2009, 2010 and 2011, certain of the Group's utilised banking facilities were guaranteed by third party guarantee companies, which charge guarantee fees to the Group and require the Group to place guarantee deposits (note 16(i)). At the same time, these guarantee companies also require Wu Zheyang to provide back-to-back guarantee to them in relation to the banking facilities utilised by the Group.

At 31 December 2009, 2010 and 2011, all of the Group's banking facilities were subject to the fulfilment of certain covenants, such as asset-liability ratio and liquidity ratio, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 26(b). At 31 December 2009, 2010 and 2011, none of the covenants relating to drawn down facilities had been breached.

21 Deferred income

The movements of deferred income are as follows:

| | At 31 December | | |
|---|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| At 1 January | — | 922 | 903 |
| Additions during the year | 941 | — | 18,025 |
| Government grant recognised in profit or loss as other revenue | <u>(19)</u> | <u>(19)</u> | <u>(839)</u> |
| | <u>922</u> | <u>903</u> | <u>18,089</u> |
| Represented by: | | | |
| Current portion | 19 | 19 | 920 |
| Non-current portion | <u>903</u> | <u>884</u> | <u>17,169</u> |
| | <u>922</u> | <u>903</u> | <u>18,089</u> |

Deferred income represented government subsidies that compensated the Group for the cost of its land use right and the cost of infrastructure development which are recognised in profit or loss on a systematic basis over the useful life of the assets (note 4(a)).

22 Capital

On 16 April 2012, the Group completed the Reorganisation to rationalise the Group's structure in preparing for the listing of the Company's shares on the Main Board of the Stock Exchange. Further details of the Reorganisation are set out in the section headed "Company History and Reorganisation" in the Prospectus. As a result of the Reorganisation, the Company became the holding company of the Group on 16 April 2012.

For the purpose of this report, capital in the combined balance sheets as at 31 December 2009, 2010 and 2011 represented the aggregate amount of capital of the companies now comprising the Group, after elimination of investments in subsidiaries. Further details of the Company's share capital are set out in the section headed "Share Capital" in the Prospectus.

23 Reserves**(a) Exchange reserve**

The exchange reserve comprises all foreign currency differences arising from the translation of the financial statements with functional currency other than Renminbi. The reserve is dealt with in accordance with the accounting policy set out in note 1(v).

(b) Statutory reserve

Transfers from retained profits to PRC statutory reserve are made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries established in the PRC and were approved by the respective boards of directors.

The subsidiaries in the PRC are required to appropriate 10% of its after-tax profit, as determined in accordance with the PRC accounting rules and regulations, to statutory general reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory general reserve can be used to make good prior years' losses, if any, and may be converted into paid-up capital provided that the balance after such conversion is not less than 25% of the registered capital.

(c) Distributable reserves

The Company was incorporated on 17 October 2011 and there was no reserve available for distribution to shareholders as at 31 December 2011.

On the basis set out in Section A above, the aggregate amounts of distributable reserves of the companies comprising the Group at 31 December 2009, 2010 and 2011 were RMB18,795,000, RMB66,634,000 and RMB135,615,000 respectively.

(d) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk and by securing access to financing at a reasonable cost.

The Group defined "capital" as including all components of equity. Trade balances and short-term bank loans that arise in the course of ordinary business are not regarded by the Group as capital. On this basis, the amount of capital employed by the Group at 31 December 2009, 2010 and 2011 were RMB41,883,000, RMB74,350,000 and RMB146,594,000 respectively.

The Group manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustment to the capital structure in light of changes in economic conditions affecting the Group.

Except for the banking facilities which require the fulfilment of certain covenants as disclosed in note 20(c), neither the Company nor any of the subsidiaries are subject to externally imposed capital requirements.

24 Commitments

Capital commitments outstanding at 31 December 2009, 2010 and 2011 not provided for in this Financial Information were as follows:

| | At 31 December | | |
|-----------------------------------|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Contracted for | 22,105 | 26,227 | 15,016 |
| Authorised but not contracted for | <u>—</u> | <u>—</u> | <u>—</u> |
| | <u>22,105</u> | <u>26,227</u> | <u>15,016</u> |

25 Related party transactions

In addition to the related party information disclosed in notes 7, 8, 16, 19 and 20 of this Financial Information, the Group entered into the following significant related party transactions during the Relevant Period.

(a) *Name and relationship with related parties*

During the Relevant Period, the directors are of the view that related parties of the Group include the following individuals/entities:

| Name of party | Relationships |
|----------------------|---|
| Wu Zheyang 吳哲彥 | Ultimate Controlling Shareholder, a director of the Company and key management personnel of the Group |
| Wu Qingshan 吳青山 | A director of the Company, key management personnel and a shareholder of the Group |
| Xie Qingmei 謝清美 | A director of the Company, key management personnel and a shareholder of the Group |
| Wu Dongping 吳冬平 | Father of Wu Zheyang and a director of the Company |
| Chen Tian Fu 陳天福 | Key management personnel of the Group |

| Name of party | Relationships |
|--|--|
| Wong On Lai 黃安麗 | Key management personnel of the Group |
| Wu Jiao Lan 吳姣蘭 | Mother of Wu Zheyang |
| Liu Ying Yan 劉瑩燕 | Wife of Wu Zheyang |
| Han Jin 韓金 | Brother-in-law of Wu Zheyang |
| Zhangping Jiupengxi Ecological Tourism Development Company Limited 漳平市九鵬溪生態旅遊發展有限公司 ("Jiupengxi") | A private company controlled by Wu Zheyang |
| Longyan Jingyuan Wood Industry Co., Ltd. 龍岩市金源木業有限公司 ("JYMY") (note (i)) | Wu Zheyang was the key management personnel of JYMY |
| Fujian Meijia Wood Engineering Co., Ltd. 福建美家木屋工程有限公司 ("MJMW") (note (ii)) | A private company controlled by Wu Dongping |
| Zhangping Jiajia Anti-corrosion Wooden Products Manufacturing Co., Ltd. 漳平市佳家防腐木材製品廠 ("JJMC") (note (iii)) | A private company controlled by Wu Dongping |
| Fujian Meijia Landscape Wood Industry Co., Ltd. 福建美家景觀木業有限公司 ("MJJG") (note (iv)) | Wu Dongping was the key management personnel of MJJG |
| Shanghai Zhengyuan Anti-corrosion Wood Industry Co., Ltd. 上海正元防腐木業有限公司 ("SHZY") | A private company controlled by Wu Dongping |

The English translation of the name is for reference only. The official name of these related parties is in Chinese.

Notes:

- (i) JYMY ceased to be a related party of the Group since August 2010 because Wu Zheyang ceased to be the legal representative and management of JYMY.
- (ii) MJMW ceased to be a related party of the Group since March 2011 because Wu Dongping has transferred his controlling interests in MJMW to a third party.
- (iii) JJMC ceased to be a related party of the Group since November 2011 because Wu Dongping has transferred his controlling interests in JJMC to a third party.
- (iv) MJJG ceased to be a related party of the Group since February 2011 because Wu Dongping ceased to be the legal representative and management of MJJG.

(b) *Significant related party transactions*

Particulars of significant related party transactions during the Relevant Period are as follows:

| | Years ended 31 December | | |
|---------------------------------|--------------------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Sales of goods to: | | | |
| — Jiupengxi | — | 437 | 2,065 |
| — MJMW | — | 2,578 | — |
| — MJJG | — | 692 | — |
| | <u>—</u> | <u>3,707</u> | <u>2,065</u> |
| Purchase of raw materials from: | | | |
| — JYMY | 7,389 | 8,607 | — |
| — JJMC | 4,115 | 8,836 | 2,090 |
| — SHZY | 499 | — | — |
| | <u>12,003</u> | <u>17,443</u> | <u>2,090</u> |

The directors confirm that the above sales and purchase transactions are entered into with trading terms similar to those with third parties.

(c) *Amounts due from related companies*

| | At 31 December | | |
|-----------|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Jiupengxi | — | 737 | 508 |
| MJMW | — | 1,720 | — |
| JYMY | — | 2,200 | — |
| JJMC | — | 1,980 | — |
| MJJG | — | 692 | — |
| | <u>—</u> | <u>7,329</u> | <u>508</u> |

The amounts due from related companies were arisen from normal sales and purchase transactions. They were unsecured, interest-free and expected to be settled according to their respective credit terms which are similar to those with third parties.

(d) *Amount due from a director*

| | At 31 December | | |
|-------------|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Wu Qingshan | <u>—</u> | <u>—</u> | <u>480</u> |

The amount due from a director was unsecured, interest-free and expected to be recovered within one year. The maximum balance outstanding during the year ended 31 December 2011 was RMB480,000 (years ended 31 December 2009 and 2010: RMBNil). There was no provision made against the amount at 31 December 2011. The director confirmed that the amount will be settled upon the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

(e) *Amounts due to related companies*

| | At 31 December | | |
|------|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| JYMY | 557 | — | — |
| JJMC | <u>325</u> | <u>—</u> | <u>—</u> |
| | <u>882</u> | <u>—</u> | <u>—</u> |

The amounts due to related companies were unsecured, interest-free and repayable on demand.

(f) *Amount due to the Ultimate Controlling Shareholder*

| | At 31 December | | |
|------------|-----------------------|----------------|----------------|
| | 2009 | 2010 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Wu Zheyuan | <u>16,793</u> | <u>39,124</u> | <u>443</u> |

The amount due to the Ultimate Controlling Shareholder was unsecured, interest-free and repayable on demand. The Ultimate Controlling Shareholder of the Company has confirmed that the amount will be repaid upon the listing of the Company's shares on the Main Board of the Stock Exchange.

(g) *Key management personnel remuneration*

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

| | Years ended 31 December | | |
|---------------------------------|-------------------------|------------|------------|
| | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 |
| Short-term employee benefits | 524 | 658 | 860 |
| Retirement scheme contributions | <u>5</u> | <u>5</u> | <u>13</u> |
| | <u>529</u> | <u>663</u> | <u>873</u> |

Total remuneration was included in "staff costs" (see note 5(b)).

26 Financial risk management and fair values

Exposure to credit, liquidity, interest rate, currency, commodity price and business risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) *Credit risk*

The Group's credit risk is primarily attributable to trade and other receivables and cash and cash equivalents. Management has a credit policy in place and the exposure to these credit risks is monitored on an ongoing basis.

In respect of cash and cash equivalents, the Group only places deposits with major financial institutions, which management believe are of high credit rating.

In respect of trade and other receivables, the Group usually requires upfront payment for sales of goods to new customers. For export sales, the Group generally requests settlement by letter of credit issued by financial institutions or by wire transfer for certain customers with good trading history. Individual credit evaluations are performed on all new customers requiring credit over a certain amount and are also performed on existing customers on a periodic basis. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and may take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group offers 15 to 60 days of credit to export sales customers with good trading history and offers 30 to 90 days of credit to the existing domestic sales customers. Generally, debtors with balances that are more than 1 year past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At 31 December 2009, 2010 and 2011, 0%, 1% and 3%, respectively, of the total trade and other receivables was due from the Group's largest customer and 36%, 25% and 41%, respectively, was due from the five largest customers. All of these debtors are within the Zhangping Kimura segment.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the combined balance sheets after deducting any impairment allowance. The Group does not provide any guarantees which would expose it to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 16.

(b) *Liquidity risk*

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at 31 December 2009, 2010 and 2011 of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet dates) and the earliest date the Group can be required to pay.

| | At 31 December 2009 | | |
|--------------------------|---|---|--|
| | Within 1 year or on demand RMB'000 | Total contractual undiscounted cash flow RMB'000 | Balance sheet carrying amount RMB'000 |
| Bank loans | 21,780 | 21,780 | 21,250 |
| Trade and other payables | <u>45,780</u> | <u>45,780</u> | <u>45,780</u> |
| | <u>67,560</u> | <u>67,560</u> | <u>67,030</u> |

At 31 December 2010

| | Within 1 year or on demand <i>RMB'000</i> | Total contractual undiscounted cash flow <i>RMB'000</i> | Balance sheet carrying amount <i>RMB'000</i> |
|--------------------------|--|--|---|
| Bank loans | 48,011 | 48,011 | 47,000 |
| Trade and other payables | <u>58,147</u> | <u>58,147</u> | <u>58,147</u> |
| | <u>106,158</u> | <u>106,158</u> | <u>105,147</u> |

At 31 December 2011

| | Within 1 year or on demand <i>RMB'000</i> | Total contractual undiscounted cash flow <i>RMB'000</i> | Balance sheet carrying amount <i>RMB'000</i> |
|--------------------------|--|--|---|
| Bank loans | 88,151 | 88,151 | 85,797 |
| Trade and other payables | <u>16,133</u> | <u>16,133</u> | <u>16,133</u> |
| | <u>104,284</u> | <u>104,284</u> | <u>101,930</u> |

(c) *Interest rate risk*

The Group's interest rate risk arises primarily from borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) *Interest rate profile*

The following table details the interest rate profile of the Group's total borrowings at 31 December 2009, 2010 and 2011:

| | At 31 December | | | | | |
|---|-------------------------|---------------|-------------------------|---------------|-------------------------|---------------|
| | 2009 | | 2010 | | 2011 | |
| | Effective interest rate | | Effective interest rate | | Effective interest rate | |
| | % | RMB'000 | % | RMB'000 | % | RMB'000 |
| Fixed rate borrowings: | | | | | | |
| RMB and USD bank loans | 5.41% | 21,250 | 5.80% | 43,700 | 6.17% | 12,279 |
| Variable rate borrowings: | | | | | | |
| RMB and USD bank loans | | — | 5.91% | 3,300 | 7.35% | 73,518 |
| Total net borrowings | | <u>21,250</u> | | <u>47,000</u> | | <u>85,797</u> |
| Net fixed rate borrowings as a percentage of total net borrowings | | <u>100%</u> | | <u>93%</u> | | <u>14%</u> |

(ii) *Sensitivity analysis*

At 31 December 2009, 2010 and 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMBnil, RMB28,000 and RMB625,000, respectively. Other components of equity would not be affected by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet dates, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for years ended 31 December 2009, 2010 and 2011.

(d) *Currency risk*

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in USD and Euros, currencies other than the functional currency of the entity to which they relate. The Group is also exposed to currency risk in relation to RMB as King Wood, with HK\$ as its functional currency, has an amount due to the Ultimate Controlling Shareholder that is denominated in RMB.

All of the Group's borrowings are denominated in the functional currency of the entity taking out the loan. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

During the Relevant Period, the Group entered into foreign currency forward contracts with major state-owned banks in the PRC to mitigate its currency risk. All of the forward exchange contracts have maturities of less than one year after the balance sheet dates.

At 31 December 2009, 2010 and 2011, the Group had foreign currency forward contracts with an unrealised gain of RMB546,000, RMB521,000 and RMB305,000 recognised as derivative financial instruments and are included within "Trade and other receivables" (note 16) and an unrealised loss of RMB4,267,000, RMB55,000 and RMBnil recognised as derivative financial instruments and are included within "Trade and other payables" (note 19). The changes in fair value of the foreign currency forward contracts were recognised in the combined income statements (note 4(b)).

(i) *Exposure to currency risk*

The following table details the Group's exposure at 31 December 2009, 2010 and 2011 to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the balance sheet dates. Differences resulting from the translation of the financial statements of the entities with functional currency other than RMB into the Group's presentation currency are excluded.

| | At 31 December | | | | | | | | | | |
|---|----------------|--------------|---------------|--------------|-----------------|---------------|-----------|-----------------|---------|---------|--|
| | 2009 | | 2010 | | | 2011 | | | | | |
| | United States | | United States | | | United States | | | | | |
| Dollars | Euros | Dollars | Euros | RMB | Dollars | Euros | RMB | Dollars | Euros | RMB | |
| RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| Trade and other receivables | 5,970 | 2,771 | 11,043 | 1,633 | — | 25,412 | 81 | — | | | |
| Cash and cash equivalents | 45 | 1,078 | 20 | 177 | — | 534 | 1 | — | | | |
| Bank loans | — | — | — | — | — | (3,697) | — | — | | | |
| Trade and other payables | (16) | — | (9,388) | — | (21,000) | (8,863) | — | (21,000) | | | |
| Net exposure arising from recognised assets and liabilities | <u>5,999</u> | <u>3,849</u> | <u>1,675</u> | <u>1,810</u> | <u>(21,000)</u> | <u>13,386</u> | <u>82</u> | <u>(21,000)</u> | | | |

(ii) *Sensitivity analysis*

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet dates had changed at that date, assuming all other risk variables remained constant. Other components of equity would not be affected by changes in the foreign exchange rates.

| | At 31 December | | | | | |
|------------------|--|---|--|---|--|---|
| | 2009 | | 2010 | | 2011 | |
| | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained profits <i>RMB'000</i> | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained profits <i>RMB'000</i> | Increase/ (decrease) in foreign exchange rates | Effect on profit after tax and retained profits <i>RMB'000</i> |
| United States | | | | | | |
| Dollars | 5% | 95 | 5% | 97 | 5% | 588 |
| | (5)% | (95) | (5)% | (97) | (5)% | (588) |
| Euros | 5% | 135 | 5% | 78 | 5% | 3 |
| | (5)% | (135) | (5)% | (78) | (5)% | (3) |
| RMB against HK\$ | 5% | — | 5% | (877) | 5% | (877) |
| | (5)% | — | (5)% | 877 | (5)% | 877 |

Results of the analysis as presented above represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for years ended 31 December 2009, 2010 and 2011.

(e) *Commodity price risk*

The major raw materials used in the production of the Group's products include redwood, fir and pinewood. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by the global market as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

(f) *Fair values*(i) *Financial instruments carried at fair value*

The below presents the carrying value of financial instruments measured at fair value at the combined balance sheet dates across the three levels of the fair value hierarchy defined in the amendment to IFRS 7, *Financial Instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

At 31 December 2009, 2010 and 2011, the only financial instruments of the Group carried at fair value were derivative financial instruments (notes 16 and 19). These instruments falls into Level 2 of the fair value hierarchy described above.

During the year, there were no transfers between instruments in Level 1 and Level 2.

(ii) *Fair values of financial instruments carried at other than fair value*

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2009, 2010 and 2011.

27 Accounting judgements and estimates***Key sources of estimation uncertainty***

The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the Financial Information.

(i) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles or changes in market conditions. Management reassesses these estimations at the balance sheet dates to ensure inventory is shown at the lower of cost and net realisable value.

(ii) *Impairment of trade receivables*

The management determines the impairment of trade receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. If the financial conditions of the customers were to deteriorate, actual write-off would be higher than estimated. Management reassesses the impairment of trade receivables at the balance sheet dates.

(iii) *Depreciation*

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The management reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(iv) *Income tax*

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of these transactions are reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets, if any, are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

28 Financial information of the Company**(a) Investments in subsidiaries**

Details of subsidiaries are set out in Section A of the Financial Information.

The statutory financial statements of the companies now comprising the Group, which were subject to audit during the Relevant Period, were either prepared in accordance with HKFRSs issued by the HKICPA or PRC GAAP issued by the Ministry of Finance of the PRC. The respective statutory auditors of these financial statements are indicated below:

| Name of company | Financial period | Statutory auditors |
|---|--|--|
| King Wood (Hong Kong) Holding Limited | For the period from 5 August 2010 to 31 December 2011 | PROCON CPA Limited 博爾會計師有限公司 |
| Fujian Zhangping Kimura Forestry Products Co., Ltd.* | Years ended 31 December 2009, 2010 and 2011 | Xiamen Chu Han Zheng Zhong Certified Public Accountants Co., Ltd. 廈門楚瀚正中會計師事務所有限公司 |
| Zhangping Kimura Merry Garden Wooden Structure Design and Installation Co., Ltd.* | For the period from 12 June 2010 to 31 December 2010 and year ended 31 December 2011 | Xiamen Chu Han Zheng Zhong Certified Public Accountants Co., Ltd. 廈門楚瀚正中會計師事務所有限公司 |

* The English translation of the company names is for reference only. The official names of these companies are in Chinese.

(b) The Company was incorporated on 17 October 2011 with an authorised share capital of HK\$390,000 divided into 390,000 shares of HK\$1 each. On the same date, the Company issued 10,000 shares at par value of HK\$1. The Company has not carried on any business since its date of incorporation.

29 Immediate and ultimate controlling parties

The directors consider the ultimate controlling shareholder of the Group as at 31 December 2011 to be Wu Zheyang.

Upon the completion of the Reorganisation on 16 April 2012 as set out in the section headed “Company History and Reorganisation” in the Prospectus, the Company became the parent company of the Group. The directors consider the immediate holding company and ultimate controlling shareholder of the Company since 16 April 2012 to be Green Seas Capital Limited and Wu Zheyang respectively.

30 Possible impact of amendments, new standards and interpretations issued but not yet effective for the Relevant Period

Up to the date of issue of this Financial Information, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2011 and which have not been adopted in the Financial Information. These include the following which may be relevant to the Group.

| | Effective for accounting periods beginning on or after |
|--|---|
| Amendments to IAS 12, <i>Income taxes - Deferred tax: Recovery of underlying assets</i> | 1 January 2012 |
| Amendments to IAS 1, <i>Presentation of financial statements - Presentation of items of other comprehensive income</i> | 1 July 2012 |
| IAS 27, <i>Separate financial statements (2011)</i> | 1 January 2013 |
| IFRS 10, <i>Consolidated financial statements</i> | 1 January 2013 |
| IFRS 13, <i>Fair value measurement</i> | 1 January 2013 |
| IFRS 9, <i>Financial instruments</i> | 1 January 2015 |

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

D SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 December 2011:

(a) Group reorganisation

On 16 April 2012, the Group completed the Reorganisation to rationalise the Group's structure in preparing for the listing of the Company's shares on the Main Board of the Stock Exchange. Further details of the Reorganisation are set out in the section headed "Company History and Reorganisation" in the Prospectus. As a result of the Reorganisation, the Company became the holding company of the Group.

(b) Share option scheme

Pursuant to the written resolution of the shareholders of the Company passed on 15 June 2012, the Company has conditionally adopted a share option scheme (the "Share Option Scheme"). The principal terms of the Share Option Scheme are set out in the section headed "Share Option Scheme" in Appendix VI to the Prospectus. There were no share options granted as at the date of this report.

(c) Shares sub-division and increase of authorised share capital

Pursuant to the special resolutions of shareholders of the Company passed on 27 March 2012, the 390,000 authorised shares of HK\$1 each of the Company were sub-divided into 39,000,000 shares of HK\$0.01 each.

Pursuant to the written resolutions of all shareholders of the Company passed on 15 June 2012, the authorised share capital of the Company was increased from HK\$390,000 divided into 39,000,000 shares of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 shares of HK\$0.01 each by the creation of an additional 9,961,000,000 shares of HK\$0.01 each.

E SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 31 December 2011.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this Appendix does not form part of the Accountants' Report prepared by KPMG, Certified Public Accountants, Hong Kong, as set out in Appendix I to this prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the "Financial Information" section in this prospectus and the "Accountants' Report" as set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted combined net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is set forth below to illustrate the effect of the Global Offering on our combined net tangible assets as at 31 December 2011 as if the Global Offering had taken place on that date.

The unaudited pro forma statement of adjusted combined net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of our combined net tangible assets had the Global Offering been completed as at 31 December 2011 or at any future date. It is prepared based on our combined net assets as at 31 December 2011 as derived from our financial information set forth in the Accountants' Report in Appendix I, and adjusted as described below.

| | Combined net tangible assets of the Group as at 31 December 2011⁽¹⁾ RMB'000 | Estimated net proceeds from the Global Offering⁽²⁾ RMB'000 | Unaudited pro forma adjusted combined net tangible assets of the Group RMB'000 | Unaudited pro forma adjusted combined net tangible assets per Share⁽³⁾ RMB HK\$⁽⁴⁾ | |
|--|---|--|---|--|------|
| <i>Based on an Offer Price of HK\$1.00 per Share</i> | 146,594 | 121,948 | 268,542 | 0.27 | 0.33 |
| <i>Based on an Offer Price of HK\$1.15 per Share</i> | 146,594 | 143,180 | 289,774 | 0.29 | 0.36 |

Notes:

- (1) The combined net tangible assets of the Group as at 31 December 2011 have been calculated based on the combined net assets of the Group of RMB146.6 million as at 31 December 2011 extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Prices of HK\$1.00 and HK\$1.15 per Share (equivalent to RMB0.81 to RMB0.93 per Share at an exchange rate of HK\$1.00 to RMB0.8107), after deduction of the underwriting fees and other expenses related to the Global Offering payable by the Company. No account has been taken of the Shares which may fall to be issued upon the exercise of the Over-allotment Option.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (3) The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,000,000,000 Shares are expected to be in issue following the Global Offering and Capitalisation Issue and the respective Offer Prices of HK\$1.00 and HK\$1.15, but takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option.
- (4) The unaudited pro forma adjusted combined net tangible assets per Share are converted into Hong Kong dollars at an exchange rate of HK\$1.00 to RMB0.8107. No representation is made that the RMB amounts have been, could have been or may be converted to Hong Kong dollars or vice versa, at that rate.

B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per Share has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 31 December 2011. The unaudited pro forma forecast earnings per Share has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial results of the Group following the Global Offering.

Forecast consolidated profit of the Company
for the six months ending 30 June 2012⁽¹⁾ Not less than RMB40.2 million
(approximately HK\$49.6 million)⁽³⁾

Unaudited pro forma forecast earnings per Share
for the six months ending 30 June 2012⁽²⁾ Not less than RMB0.04
(approximately HK\$0.05)⁽³⁾

Notes:

- (1) The forecast consolidated profit of the Company for the six months ending 30 June 2012 are extracted from the section headed “Financial Information — Profit Forecast for the six months ending 30 June 2012”. The bases and assumptions on which the above profit forecast has been prepared are summarised in “Appendix III — Profit Forecast” to this prospectus.
- (2) The unaudited pro forma forecast earnings per Share for the six months ending 30 June 2012 is calculated by dividing the forecast consolidated profit of the Company for the six months ending 30 June 2012, assuming the Global Offering had been completed on 31 December 2011, by 1,000,000,000 Shares as if such Shares had been in issue during the entire year. The number of Shares used in this calculation includes the Shares in issue as of the date of this prospectus and the Shares to be issued pursuant to the Global Offering and the Capitalisation Issue but excludes any Shares which may be issued pursuant to the exercise of the Over-allotment Option.
- (3) The forecast consolidated profit of the Company, and unaudited pro forma forecast earnings per Share in RMB are converted to Hong Kong dollars at an exchange rate of HK\$1.00 to RMB0.8107. No representation is made that the RMB amounts have been, could have been or may be converted to Hong Kong dollars or vice versa, at that rate.

**C. REPORT FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO
FORMA FINANCIAL INFORMATION**

The following is the text of a report received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, prepared for the sole purpose of incorporation in this prospectus, in respect of the unaudited pro forma financial information of the Group.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

25 June 2012

The Directors
Merry Garden Holdings Limited

Dear Sirs

Merry Garden Holdings Limited (the "Company")

We report on the unaudited pro forma financial information (the "Pro Forma Financial Information") of the Company and its subsidiaries (the "Group") set out on pages II-1 to II-2 in Appendix II of the prospectus dated 25 June 2012 (the "Prospectus"), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the proposed initial public offering of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited might have affected the financial information presented. The basis of preparation of the unaudited Pro Forma Financial Information is set out on pages II-1 to II-2 in Appendix II of the Prospectus.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by Paragraph 4.29(7) of the Listing Rules, on the unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review performed in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Company and that the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

The unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 December 2011 or any future date; or
- the earnings per share of the Group for the six months ending 30 June 2012 or any future periods.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company’s shares, the application of those net proceeds, or whether such use will actually take place as described under “Use of Proceeds” set out in the section “Future Plans and Use of Proceeds” of the Prospectus.

Opinion

In our opinion:

- a) the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- b) such basis is consistent with the accounting policies of the Company, and
- c) the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

The forecast of the consolidated profit attributable to owners of the Company for the six months ending 30 June 2012 is set out in the paragraph headed “Profit Forecast” under the section headed “Financial Information”.

BASES AND ASSUMPTIONS

The forecast of the consolidated profit of the Company for the six months ending 30 June 2012 prepared by the Directors is based on the unaudited consolidated results based on management accounts of our Group for the four months ended 30 April 2012 and the forecast consolidated results of our Group for the remaining two months ending 30 June 2012.

The forecast has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by our Group as summarised in the accountants’ report, the text of which is set out in Appendix I to this prospectus and is based on the following principal basis and assumptions:

- (a) there will be no material changes in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal or economic conditions in Hong Kong, the PRC or any other places in which any member of our Group is incorporated, carries on business;
- (b) there will be no material changes in the bases or rates of taxation or duties applicable to the activities of our Group;
- (c) there will be no material adverse changes in rates of inflation, the foreign currency exchange rates and interest rates from those currently prevailing;
- (d) the Group’s operations and financial performance will not be materially and adversely impacted by any of the risk factors set out in the section headed “Risk Factors” in this prospectus;
- (e) there will be no material change in accounting standards or financial reporting requirements which will have significant impact on the preparation of the profit forecast;
- (f) there will be no material changes in the management of our Group during the profit forecast period;
- (g) our Group will be able to maintain its business relationship with our major suppliers and customers with no material changes in the respective transaction terms;
- (h) our Group will not have any significant business acquisition or disposal during the profit forecast period; and
- (i) there will be no abnormal or extraordinary items during the profit forecast period.

SENSITIVITY ANALYSIS

The key factors underlying the profit forecast are the sales volume and the cost of raw materials. The sensitivity analysis below illustrates the impact of hypothetical changes in: (i) the sales volume of our Group and (ii) the raw material price (assuming there is no material change in other factors).

The following table illustrates the sensitivity of the forecast consolidated profit of our Company for the six months ending 30 June 2012 to the changes in our sales volume, assuming that all other factors remain unchanged:

| | +/-10% | +/-20% | +/-30% | +/-40% | +/-50% |
|---|------------------|------------------|------------------|------------------|------------------|
| | change in | change in | change in | change in | change in |
| | sales | sales | sales | sales | sales |
| | volume | volume | volume | volume | volume |
| Changes in forecasted net profit (RMB in thousand) | +/-3,128 | +/-6,257 | +/-9,385 | +/-12,513 | +/-15,641 |

The above sensitivity analysis assumed that there will be a corresponding change in cost of sales in response to change in sales volume.

The following table illustrates the sensitivity of the forecast consolidated profit of our Company for the six months ending 30 June, 2012 to the changes in the average prices for raw materials, assuming that all other factors remain unchanged:

| | +/-10% | +/-20% | +/-30% | +/-40% | +/-50% |
|--|------------------|------------------|------------------|------------------|------------------|
| | change in | change in | change in | change in | change in |
| | average | average | average | average | average |
| | raw | raw | raw | raw | raw |
| | materials | materials | material | material | material |
| | price | price | price | price | price |
| Changes in forecasted net profit (RMB in thousand) | -/+4,334 | -/+8,668 | -/+13,002 | -/+17,336 | -/+21,670 |

The above sensitivity analysis has not considered the adjustment of selling price to respond to the raw material price fluctuation. The Directors believe the actual fluctuation will be less than the above illustration as the Group will adjust the selling price of its products when there is significant change to raw material pricing.

LETTERS

Set out below are texts of letters received by the Directors from (i) KPMG, Certified Public Accountants, Hong Kong, reporting accountants of our Company, and (ii) the Sole Sponsor prepared for the purpose of incorporation in this prospectus in connection with the profit forecast of our Group for the six months ending 30 June 2012.

(i) Letter from the Reporting Accountants



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

25 June 2012

The Directors
Merry Garden Holdings Limited

Guotai Junan Capital Limited

Dear Sirs

We have reviewed, in accordance with the Auditing Guideline 3.341 "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants, the accounting policies adopted and calculations made in arriving at the forecast of the consolidated profit attributable to equity holders of Merry Garden Holdings Limited (the "Company") for the six months ending 30 June 2012 (the "Profit Forecast"), for which the directors of the Company are solely responsible, as set forth in the section headed Financial Information in the prospectus of the Company dated 25 June 2012 (the "Prospectus").

The Profit Forecast has been prepared by the directors of the Company based on the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") based on management accounts of the Group for the four months ended 30 April 2012 and a forecast of the consolidated results of the Group for the remaining two months ending 30 June 2012.

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the assumptions made by the directors as set out in Appendix III of the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated 25 June 2012, the text of which is set out in Appendix I of the Prospectus.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

(ii) Letter from Sole Sponsor

**Guotai Junan Capital Limited**

25 June 2012

The Board of Directors
Merry Garden Holdings Limited

Dear Sirs,

We refer to the forecast of the consolidated profit attributable to the owners of Merry Garden Holdings Limited (the “**Company**”) and its subsidiaries (together the “**Group**”) for the six months ending 30 June 2012 (the “**Profit Forecast**”), as set out under the paragraph headed “Profit Forecast” in the section headed “Financial Information” in the prospectus issued by the Company dated 25 June 2012 (the “**Prospectus**”).

The Profit Forecast, for which the directors of the Company (the “**Directors**”) are solely responsible, has been prepared by you based on the unaudited consolidated results of the Group based on management accounts of the Group for the four months ended 30 April 2012, and a forecast of the consolidated results of the Group for the remaining two months ending 30 June 2012.

We have discussed with you the bases and assumptions upon which the Profit Forecast has been made. We have also considered the letter dated 25 June 2012 addressed to you and us from KPMG regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by KPMG, we are of the opinion that the Profit Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
for and on behalf of
Guotai Junan Capital Limited
Ivan Chan
Director

The following is the text of a letter, summary of valuation and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Asset Appraisal Limited, an independent valuer, in connection with its valuation as at 30 April 2012 of the property interests held by the Group.

**Asset Appraisal Limited****中誠達資產評值顧問有限公司**

Rm 901 9/F On Hong Commercial Building
No.145 Hennessy Road Wanchai HK
香港灣仔軒尼詩道 145 號安康商業大廈 9 樓 901 室
Tel: (852) 2529 9448 Fax: (852) 3521 9591

25 June 2012

The Board of Directors
Merry Garden Holdings Limited
Guotai Junan Capital Limited

Dear Sirs,

Re: Valuation of property interests situated in the People's Republic of China

In accordance with the instructions from **Merry Garden Holdings Limited** (referred to as the "Company") to value the property interests (referred to as the "properties") held by the Company or its subsidiaries (the Company and its subsidiaries are altogether referred to as the "Group") situated in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections of the properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at **30 April 2012** (the "date of valuation").

Basis of Valuation

Our valuation of the properties represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Valuation Methodology

The properties are valued by the comparison method where comparison based on prices realised or market prices of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

Due to the nature of the buildings and structures erected thereon, the properties numbered 1, 2 and 3 have been valued on the basis of depreciated replacement cost (DRC). The assessment of the DRC requires an estimate of the market value of the land in existing use and an estimate of the new replacement (reproduction) cost of the buildings and structures and other site works as at the date of valuation, from which deductions are then made to allow for age, condition, functional obsolescence, etc.. In valuing the market value of the land portions of the properties, the comparison method has been adopted.

Assumptions

Our valuation has been made on the assumption that owners sell the properties on the market in their existing states without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the values of the properties.

For those properties held by the owners by means of long term Land Use Rights granted by the Government, we have assumed that the owner has free and uninterrupted rights to use the properties for the whole of the unexpired term of the respective land use rights. We have also assumed that they can be freely transferred on the market free from any land premium or expenses of substantial amount payable to the Government.

Other special assumptions for our valuation (if any) would be stated out in the footnotes of the valuation certificate attached herewith.

Titleship

We have been provided with copies of legal documents regarding the properties. However, we have not verified ownership of the properties and the existence of any encumbrances that would affect ownership of them.

We have also relied upon the legal opinion provided by the PRC Legal Adviser, namely Hills & Co., to the Company on the relevant laws and regulations in the PRC, on the nature of land use rights and the Group's interests in the properties.

Limiting Conditions

No allowance has been made in our report for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value. Our valuation have been made on the assumption that the seller sells the property on the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the properties.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have carried out inspections of the properties. However, no structural survey has been made. In the course of our inspection, we did not note any serious defects. We are unable to report whether the buildings and structures of the properties are free of rot, infestation or any other structural defects. No test was carried out on any of the services of the buildings and structures of the properties.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

In valuing the properties, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1 January 2005.

Unless otherwise stated, all monetary sums stated in this report are in Renminbi (RMB).

Our summary of valuation and valuation certificate are attached herewith.

Yours faithfully,
for and on behalf of
Asset Appraisal Limited

Tse Wai Leung
MFin BSc MRICS MHKIS RPS(GP)
Director

Tse Wai Leung is a member of the Royal Institution of Chartered Surveyors, a member of The Hong Kong Institute of Surveyors, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC. He is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Valuation Forum and has over 10 years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

SUMMARY OF VALUATION

| Property | Market value in existing state as at 30 April 2012 <i>RMB</i> | Interest attributable to the Group as at 30 April 2012 % | Value of property interest attributable to the Group as at 30 April 2012 <i>RMB</i> |
|--|---|---|--|
| Group I — Property interests held and occupied by the Group | | | |
| 1. Land, various buildings and structures located in Fushan Industrial Zone, Western side of East Waihuan Road, Jingcheng Jiedao, Zhangping City, Fujian Province, the PRC. (Lot No. 101/36/275, 101/36/276, 101/36/0241 and 101/36/0025) | 4,560,000 | 100% | 4,560,000 |
| 2. Land and various buildings located in Fushan Industrial Zone, Eastern side of East Waihuan Road, Jingcheng Jiedao, Zhangping City, Fujian Province, the PRC. (Lot No. 101/36/255, 101/36/277 and 101/36/320) | 7,100,000 | 100% | 7,100,000 |
| 3. Land, various buildings and structures located in Hechun Village and Heping Village, Heping Town, Zhangping City, Fujian Province, the PRC. (Lot No. 106/2/331) | 70,300,000 | 100% | 70,300,000 |

| Property | Market value in existing state as at 30 April 2012 RMB | Interest attributable to the Group as at 30 April 2012 % | Value of property interest attributable to the Group as at 30 April 2012 RMB |
|---|---|---|---|
| 4. Land located in Chunwei Village, Heping Town, Zhangping City, Fujian Province, the PRC. (Lot No. 106/2/330) | 6,800,000 | 100% | 6,800,000 |
| Group II — Property interests rented by the Group | | | |
| 5. Room 3E-1682, No. 2123 Pudong Avenue, Pudong New Area, Shanghai City, the PRC. | No commercial value | 100% | No commercial value |
| 6. Room 2702 on 27 th Floor, China Resources Building, No. 26 Harbour Road, Wan Chai, Hong Kong | No commercial value | 100% | No commercial value |
| Grand-total: | <u>88,760,000</u> | | <u>88,760,000</u> |

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group

| Property | Description and tenure | Particulars of occupancy | Market Value in existing state as at 30 April 2012 RMB | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|--------------------------|---|-------|--------------------------|----|-----------|---|--------|----|----------|---|----------|----|----------|---|--------|----|----------|---|--------|----|----------|---|--------|----|-----------|---|--------|----|-----------|---|--------|----|-----------|---|--------|----|--------------------|---|--------|------|--------------------|---|-----------------|---------------|--|--|------------------------|--|--|
| 1. Land, various buildings and structures located in Fushan Industrial Zone, Western side of East Waihuan Road, Jingcheng Jiedao, Zhangping City, Fujian Province, the PRC. (中國福建省漳平市菁城街道東外環路西側富山工業區內之土地、建築物及構築物) Lot No. 101/36/275, 101/36/276, 101/36/0241, 101/36/0025 and 101/36/357 | <p>The property comprises four parcels of land with a total area of approximately 14,373.60 square metres on which various blocks of single to three-storey buildings and ancillary structures are erected.</p> <p>The total gross floor area of the aforesaid buildings is approximately 7,234 square metres which is broken down into the followings:</p> <table border="1"> <thead> <tr> <th>Block</th> <th>Use</th> <th>Story</th> <th>Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>A1</td> <td>Warehouse</td> <td>1</td> <td>703.58</td> </tr> <tr> <td>A2</td> <td>Workshop</td> <td>1</td> <td>1,008.90</td> </tr> <tr> <td>A3</td> <td>Workshop</td> <td>1</td> <td>813.00</td> </tr> <tr> <td>A4</td> <td>Workshop</td> <td>1</td> <td>862.50</td> </tr> <tr> <td>A5</td> <td>Workshop</td> <td>1</td> <td>897.00</td> </tr> <tr> <td>A6</td> <td>Dormitory</td> <td>2</td> <td>264.34</td> </tr> <tr> <td>A7</td> <td>Dormitory</td> <td>2</td> <td>603.17</td> </tr> <tr> <td>A8</td> <td>Dormitory</td> <td>1</td> <td>264.88</td> </tr> <tr> <td>A9</td> <td>Composite Building</td> <td>3</td> <td>727.56</td> </tr> <tr> <td>A10*</td> <td>Composite Building</td> <td>3</td> <td><u>1,089.07</u></td> </tr> <tr> <td colspan="3">Total:</td> <td><u>7,234.00</u></td> </tr> </tbody> </table> | Block | Use | Story | Gross Floor Area (sq.m.) | A1 | Warehouse | 1 | 703.58 | A2 | Workshop | 1 | 1,008.90 | A3 | Workshop | 1 | 813.00 | A4 | Workshop | 1 | 862.50 | A5 | Workshop | 1 | 897.00 | A6 | Dormitory | 2 | 264.34 | A7 | Dormitory | 2 | 603.17 | A8 | Dormitory | 1 | 264.88 | A9 | Composite Building | 3 | 727.56 | A10* | Composite Building | 3 | <u>1,089.07</u> | Total: | | | <u>7,234.00</u> | <p>The property is occupied by the Group as production workshops, warehouses, self-operated store, administrative offices, laboratory, product showroom and staff dormitories.</p> | <p>4,560,000 (100% interest attributable to the Group: 4,560,000)</p> |
| Block | Use | Story | Gross Floor Area (sq.m.) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A1 | Warehouse | 1 | 703.58 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A2 | Workshop | 1 | 1,008.90 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A3 | Workshop | 1 | 813.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A4 | Workshop | 1 | 862.50 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A5 | Workshop | 1 | 897.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A6 | Dormitory | 2 | 264.34 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A7 | Dormitory | 2 | 603.17 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A8 | Dormitory | 1 | 264.88 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A9 | Composite Building | 3 | 727.56 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A10* | Composite Building | 3 | <u>1,089.07</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total: | | | <u>7,234.00</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

* Portion of Level 1 (Room 101-102) of Block A10 with a Gross Floor Area of approximately 200 square metres was occupied by the Group as a self-operated store.

The ancillary structures mainly include timber huts, boundary fences, guard room and gates.

The above buildings and ancillary structures were completed in between 2006 and 2011.

The land use rights of the property have been granted for terms expiring on between 28 February 2047 and 8 September 2061 for industrial use.

Notes:

- Pursuant to a State-owned Land Use Rights Contract (Ref: 2006協-06號) dated 9 March 2006, the land use rights of a land parcel of the property with an area of 1,315 square metres were granted by the Land and Resources

- Bureau of Zhangping (漳平市國土資源局) to Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司) for industrial use at a consideration of RMB105,200 for a term of 50 years commencing on 9 March 2006. As confirmed by the Company, the land premium for the land grant has been settled in full by Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司).
2. Pursuant to another State-owned Land Use Rights Contract (Ref: 35088120110809X06) dated 10 August 2011, the land use rights of another land parcel of the property with an area of 1,556 square metres were granted by the Land and Resources Bureau of Zhangping (漳平市國土資源局) to Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司) for industrial use at a consideration of RMB175,000 for a term of 50 years. As confirmed by the Company, the land premium for the land grant has been settled in full by Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司).
 3. Pursuant to another State-owned Land Use Rights Contract (Ref: 35088120110704G017) dated 19 July 2011, the land use rights of another land parcel of the property with an area of 342 square metres were granted by the Land and Resources Bureau of Zhangping (漳平市國土資源局) for industrial use at a consideration of RMB60,000 for a term of 50 years. As confirmed by the Company, the land premium for the land grant has been settled in full by Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司).
 4. Pursuant to another State-owned Land Use Rights Contract (Ref: 2006協-05號) dated 9 March 2006, the land use rights of another land parcel of the property and the land use rights of a land parcel of property numbered 2 with respective areas of 980 square metres and 3,000 square metres were granted by the Land and Resources Bureau of Zhangping (漳平市國土資源局) to Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司) for industrial use at a total consideration of RMB600,980 for a term of 50 years commencing on 9 March 2006. As confirmed by the Company, the land premium for the land grant has been settled in full by Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司).
 5. As revealed from two State-owned Land Use Rights Certificates (Ref: Zhang Guo Yong (2006) Zi Di Nos. 0070 and 0071 (漳國用(2006)字第0070, 0071號) both dated 23 March 2006, the land use rights of 2 land parcels of the property (Lot Nos. 101/36/275 and 101/36/276) with a total area of 2,295 square metres are held by Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司) for a land use right term expiring on 8 March 2056 for industrial use.
 6. As revealed by another set of State-owned Land Use Rights Certificate (Ref: Zhang Guo Yong (2002) Zi Di No. 101034 (漳國用(2002)字第101034號) dated 25 April 2002, the land use rights of another land parcel of the property (Lot No. 101/36/0025) with an area of 10,180.6 square metres are held by Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司) for a land use right term expiring on 28 February 2047 for factory use.
 7. As revealed by another set of State-owned Land Use Rights Certificate (Ref: Zhang Guo Yong (2011) Zi Di No. 2337 (漳國用(2011)字第2337號) dated 25 October 2011, the land use rights of another land parcel of the property (Lot No. 101/36/241) with an area of 1,556 square metres are held by Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司) for a land use right term expiring on 9 August 2061 for industrial use.
 8. As revealed by another set of State-owned Land Use Rights Certificate (Ref: Zhang Guo Yong (2011) Zi Di No. 2338 (漳國用(2011)字第2338號) dated 25 October 2011, the land use rights of another land parcel of the property (Lot No. 101/36/357) with an area of 342 square metres are held by Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司) for a land use right term expiring on 8 September 2061 for industrial use.
 9. Two Building Ownership Certificates (Ref: Fang Quan Zheng Zhang Fang Zi Di No. 01676 and 01677 (房權證漳房字第01676, 01677號)) was issued in the name of Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司) on 21 September 2006 in connection with the buildings of the property with a total gross floor area of 7,234 square metres.

10. As revealed by the Construction Land Use Planning Permit (建設用地規劃許可證) (Ref: 5500470) issued by the Town Planning and Construction Bureau of Zhangping (漳平市城鄉規劃建設局) on 14 February 2006, the existing use of a portion of the subject land parcels of the property with an area of approximately 5,295 square metres is consistent with the town planning controls.
11. In accordance with the information provided by the Group, the status of title and grant of major approvals and licences are as follows:
- | | |
|---|-----|
| State-owned Land Use Rights Contract | Yes |
| State-owned Land Use Rights Certificate | Yes |
| Construction Land Use Planning Permit | Yes |
| Building Ownership Certificate | Yes |
| Planning Permit for Construction Works | Yes |
12. The land use rights and building ownership rights of the property (together with the property numbered 2 of this report) are subject to a mortgage in favour of Agricultural Bank of China — Zhangping Sub-Branch (中國農業銀行股份有限公司漳平市支行) for a maximum loan amount of RMB19,200,000 for a term from 17 April 2012 to 16 April 2015.
13. In addition to the buildings and structures mentioned above, there are five wooden building structures erected on the property. As confirmed by the Company, these five structures are mainly used for product demonstration purposes. In the valuation of the property, we have attributed no commercial value to them as all of them are simple wooden structures. However, for reference purpose, we are of the opinion that the replacement cost of these simple wooden structures (excluding the land element) would be in the sum of RMB3,700,000 as of the date of valuation.
14. The opinion from the PRC Legal Adviser of the Company on the property is as follows:
- i. Fujian Zhangping Kimura Forestry Products Co., Ltd. has obtained the State-owned Land Use Rights Certificate for the property. All land premium and related taxes have been paid in full;
 - ii. Fujian Zhangping Kimura Forestry Products Co., Ltd. has obtained the Building Ownership Certificate for the property and is the legal owner of the buildings of the property;
 - iii. The existing use of the land parcels and buildings of the property is legal and valid and is consistent with the permitted use as stated in the State-owned Land Use Rights Certificates and Building Ownership Certificate of the property;
 - iv. the land use rights and building ownership rights of the property are legally held by Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司);
 - v. the property is not subject to any unusual covenant or restriction of onerous in nature;
 - vi. Fujian Zhangping Kimura Forestry Products Co., Ltd. has the rights to transfer, lease and mortgage the property; and
 - vii. Pursuant to a maximum mortgage contract (Ref: 35100620120005382) dated 17 April 2012, the land use rights and the building ownership rights of the property and the property numbered 2 of this report are subject to a mortgage in favour of Agricultural Bank of China — Zhangping Sub-Branch (中國農業銀行股份有限公司漳平市支行) for a maximum loan amount of RMB19,200,000 for a term from 17 April 2012 to 16 April 2015. Save for the mortgage, the property is free from any liens, mortgage, leases, licenses or other encumbrances or third party rights that would adversely impact to the use, transfer or assign of the property.

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group

| Property | Description and tenure | Particulars of occupancy | Market Value in existing state as at 30 April 2012 RMB | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|--------------------------|---|-------|--------------------------|----|-----------------------|---|--------|----|-----------|---|----------|----|-----------|---|--------|----|----------|---|----------|----|----------|---|----------|----|----------|---|----------|----|----------|---|--------|----|----------|---|--------|----|----------|---|----------|-----|-------------------------|---|-------|-----|----------|---|-----------------|---------------|--|--|-------------------------|---|--|
| 2. Land and various buildings located in Fushan Industrial Zone, Eastern side of East Waihuan Road, Jingcheng Jiedao, Zhangping City, Fujian Province, the PRC. (中國福建省漳平市菁城街道東外環路東側 富山工業區內之土地及建築物) Lot No. 101/36/255, 101/36/277 and 101/36/320 | <p>The property comprises three parcels of land with a total area of approximately 36,903.30 square metres on which various blocks of single storey buildings and ancillary structures are erected.</p> <p>The total gross floor area of the aforesaid buildings is approximately 11,899.96 square metres which is broken down into the followings:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Block</th> <th style="text-align: left;">Use</th> <th style="text-align: center;">Story</th> <th style="text-align: center;">Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>B1</td> <td>Guard Room and Office</td> <td style="text-align: center;">1</td> <td style="text-align: right;">111.65</td> </tr> <tr> <td>B2</td> <td>Warehouse</td> <td style="text-align: center;">1</td> <td style="text-align: right;">1,085.00</td> </tr> <tr> <td>B3</td> <td>Warehouse</td> <td style="text-align: center;">1</td> <td style="text-align: right;">562.50</td> </tr> <tr> <td>B4</td> <td>Workshop</td> <td style="text-align: center;">1</td> <td style="text-align: right;">1,105.50</td> </tr> <tr> <td>B5</td> <td>Workshop</td> <td style="text-align: center;">1</td> <td style="text-align: right;">1,105.50</td> </tr> <tr> <td>B6</td> <td>Workshop</td> <td style="text-align: center;">1</td> <td style="text-align: right;">1,880.00</td> </tr> <tr> <td>B7</td> <td>Workshop</td> <td style="text-align: center;">1</td> <td style="text-align: right;">937.20</td> </tr> <tr> <td>B8</td> <td>Workshop</td> <td style="text-align: center;">1</td> <td style="text-align: right;">717.95</td> </tr> <tr> <td>B9</td> <td>Workshop</td> <td style="text-align: center;">1</td> <td style="text-align: right;">1,316.11</td> </tr> <tr> <td>B10</td> <td>Power Distribution Room</td> <td style="text-align: center;">1</td> <td style="text-align: right;">52.07</td> </tr> <tr> <td>B11</td> <td>Workshop</td> <td style="text-align: center;">1</td> <td style="text-align: right;"><u>3,026.48</u></td> </tr> <tr> <td colspan="3" style="text-align: right;">Total:</td> <td style="text-align: right;"><u>11,899.96</u></td> </tr> </tbody> </table> | Block | Use | Story | Gross Floor Area (sq.m.) | B1 | Guard Room and Office | 1 | 111.65 | B2 | Warehouse | 1 | 1,085.00 | B3 | Warehouse | 1 | 562.50 | B4 | Workshop | 1 | 1,105.50 | B5 | Workshop | 1 | 1,105.50 | B6 | Workshop | 1 | 1,880.00 | B7 | Workshop | 1 | 937.20 | B8 | Workshop | 1 | 717.95 | B9 | Workshop | 1 | 1,316.11 | B10 | Power Distribution Room | 1 | 52.07 | B11 | Workshop | 1 | <u>3,026.48</u> | Total: | | | <u>11,899.96</u> | <p>The property is occupied by the Group as production workshops, warehouses and ancillary offices.</p> | <p>7,100,000</p> <p>(100% interest attributable to the Group: 7,100,000)</p> |
| Block | Use | Story | Gross Floor Area (sq.m.) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| B1 | Guard Room and Office | 1 | 111.65 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| B2 | Warehouse | 1 | 1,085.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| B3 | Warehouse | 1 | 562.50 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| B4 | Workshop | 1 | 1,105.50 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| B5 | Workshop | 1 | 1,105.50 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| B6 | Workshop | 1 | 1,880.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| B7 | Workshop | 1 | 937.20 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| B8 | Workshop | 1 | 717.95 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| B9 | Workshop | 1 | 1,316.11 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| B10 | Power Distribution Room | 1 | 52.07 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| B11 | Workshop | 1 | <u>3,026.48</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total: | | | <u>11,899.96</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

The above buildings and ancillary structures were completed in between 2000 and 2008.

The land use rights of the property have been granted for terms expiring on between 8 March 2056 and 8 July 2057 for industrial use.

Notes:

- Pursuant to a State-owned Land Use Rights Contract (Ref: Zhang Guo Tu Zi No. (2007)01 (漳國土資(2007)01號) dated 8 July 2007, the land use rights of a land parcel of the property with an area of 20,863.3 square metres were granted by the Land and Resources Bureau of Zhangping (漳平市國土資源局) to Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司) for industrial use at a consideration of RMB940,930 for a term of 50 years commencing on 8 July 2007 and expiring on 8 July 2057. As confirmed by the Company, the land premium for the land grant has been settled in full by Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司).

2. Pursuant to another State-owned Land Use Rights Contract (Ref: 2006協-05號) dated 9 March 2006, the land use rights of another land parcel of the property together with the land use rights of a land parcel of property numbered 1 with respective areas of 980 square metres and 3,000 square metres were granted by the Land and Resources Bureau of Zhangping (漳平市國土資源局) to Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司) for industrial use at a total consideration of RMB600,980 for a term of 50 years commencing on 9 March 2006. As confirmed by the Company, the land premium for the land grant has been settled in full by Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司).
3. Pursuant to another State-owned Land Use Rights Contract (Ref: 2007協-02號) dated 20 June 2007, the land use rights of another land parcel of the property with an area of 13,040 square metres were granted by the Land and Resources Bureau of Zhangping (漳平市國土資源局) to Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司) for industrial use at a consideration of RMB1,134,500 for a term of 50 years. As confirmed by the Company, the land premium for the land grant has been settled in full by Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司).
4. As revealed from a State-owned Land Use Rights Certificate (Ref: Zhang Guo Yong (2006) Zi Di No. 0072 (漳國用(2006)字第0072號) dated 23 March 2006, the land use rights of a land parcel of the property (Lot No. 101/36/277) with an area of 3,000 square metres are held by Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司) for a land use right term expiring on 8 March 2056 for industrial use.
5. As revealed from another State-owned Land Use Rights Certificate (Ref: Zhang Guo Yong (2008) Zi Di No. 0297 (漳國用(2008)字第0297號) dated 11 April 2008, the land use rights of another land parcel of the property (Lot No. 101/36/255) with an area of 20,863.3 square metres are held by Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司) for a land use right term expiring on 8 July 2057 for industrial use.
6. As revealed from another State-owned Land Use Rights Certificate (Ref: Zhang Guo Yong (2007) Zi Di No. 1717 (漳國用(2007)字第1717號) dated 1 September 2007, the land use rights of another land parcel of the property (Lot No. 101/36/320) with an area of 13,040 square metres are held by Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司) for a land use right term expiring on 19 June 2057 for industrial use.
7. Four sets of Building Ownership Certificate (Ref: Fang Quan Zheng Zhang Fang Zi Di Nos. 01189, 01190, 01191 and 01192 (房權證漳房字第01189, 01190, 01191, 01192號)) were issued in the name of Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司) on 13 April 2000 in connection with the buildings of the property with a total gross floor area of 8,424.03 square metres. As confirmed by the Group, the original Block B9 and B11 of the property with a total gross floor of 866.66 square metres have been demolished and new Block B9 and B11 with a total gross floor area of 4,342.48 square metres were rebuilt in 2008. Application on the issue of new Building Ownership Certificate for the new Block B9 and B11 are currently in progress.
8. As revealed by the Construction Land Use Planning Permit (建設用地規劃許可證) (Ref: 5500248) and state-owned Land Use Rights Certificate (Ref: 5500470) issued by the Town Planning and Construction Bureau of Zhangping on 20 August 2006 issued by the Zhangping Construction Committee (漳平市建設委員會) on 20 January 1998, the existing use of a portion of the subject land with an area of approximately 28,415 square metres is consistent with the town planning controls.
9. As revealed by the Planning Permit for Construction Works (建設工程規劃許可證) dated 20 August 2006, the construction of the subject buildings a planned gross floor area of 9,503 square metres are consistent with the town planning controls and was approved.
10. As at the date of valuation, Building Ownership Certificate for B9 and B11 buildings of the property with a total gross floor area of approximately 4,342.59 square metres has not yet been issued. In the course of our valuation, we have assumed that the subject building has been duly examined and approved by the relevant government authorities as safe for use and in compliance with all the relevant requirements for industrial use. In addition, we have assumed that the Building Ownership Certificate for the subject building shall be issued in the name of Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司) in due course.

11. In accordance with the information provided by the Group, the status of title and grant of major approvals and licences are as follows:

| | |
|---|---|
| State-owned Land Use Rights Contract | Yes |
| State-owned Land Use Rights Certificate | Yes |
| Construction Land Use Planning Permit | Yes |
| Planning Permit for Construction Works | Yes |
| Building Ownership Certificate | Yes (except B9 & B11 which shall be issued in due course) |

12. The land use rights and building ownership rights of the property (together with the property numbered 1 of this report) are subject to a mortgage in favour of Agricultural Bank of China — Zhangping Sub-Branch (中國農業銀行股份有限公司漳平市支行) for a maximum loan amount of RMB19,200,000 for a term from 17 April 2012 to 16 April 2015.

13. The opinion from the PRC Legal Adviser of the Company on the property is as follows:

- i. Fujian Zhangping Kimura Forestry Products Co., Ltd. has obtained the State-owned Land Use Rights Certificate for the property. All land premium and related taxes have been paid in full;
- ii. Fujian Zhangping Kimura Forestry Products Co., Ltd. has obtained the Building Ownership Certificate for the property and is the legal owner of the buildings of the property;
- iii. The existing use of the land parcels and buildings of the property is legal and valid and is consistent with the permitted use as stated in the State-owned Land Use Rights Certificates and Building Ownership Certificate of the property;
- iv. the land use rights and building ownership rights of the property are legally held by Fujian Zhangping Kimura Forestry Products Co., Ltd.;
- v. the property is not subject to any unusual covenant or restriction of onerous in nature;
- vi. Fujian Zhangping Kimura Forestry Products Co., Ltd. has the rights to transfer, lease and mortgage the property; and
- vii. Pursuant to a maximum mortgage contract (Ref: 35100620120005382) dated 17 April 2012, the land use rights and building ownership rights of the property and the property numbered 1 of this report are subject to a mortgage in favour of Agricultural Bank of China — Zhangping Sub-Branch (中國農業銀行股份有限公司漳平市支行) for a maximum loan amount of RMB19,200,000 for a term from 17 April 2012 to 16 April 2015. Save for the mortgage, the property is free from any liens, mortgage, leases, licenses or other encumbrances or third party rights that would adversely impact to the use, transfer or assign of the property.

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group

| Property | Description and tenure | Particulars of occupancy | Market Value in existing state as at 30 April 2012 RMB | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|--------------------------|---|-------|--------------------------|----|--------------------|---|----------|----|-----------|---|----------|----|---------|---|--------|----|----------|---|----------|----|----------|---|----------|-----|----------|---|----------|-----|-----------|---|----------|-----|----------|---|----------|-----|----------|---|----------|-----|----------|---|-----------------|---------------|--|--|-------------------------|---|--|
| 3. Land, various buildings and structures located in Hechun Village and Heping Village, Heping Town, Zhangping City, Fujian Province, the PRC. (中國福建省漳平市和平鎮和平村、和春村之土地、建築物) Lot No. 106/2/331 | <p>The property comprises a parcel of land with an area of approximately 90,049.00 square metres on which various blocks of single to six storey buildings and ancillary structures are erected.</p> <p>The total gross floor area of the aforesaid buildings is approximately 38,153.63 square metres which is broken down into the followings:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Block</th> <th style="text-align: left;">Use</th> <th style="text-align: center;">Story</th> <th style="text-align: center;">Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>C2</td> <td>Composite Building</td> <td style="text-align: center;">6</td> <td style="text-align: right;">3,181.65</td> </tr> <tr> <td>C3</td> <td>Warehouse</td> <td style="text-align: center;">1</td> <td style="text-align: right;">6,258.12</td> </tr> <tr> <td>C4</td> <td>Canteen</td> <td style="text-align: center;">1</td> <td style="text-align: right;">600.09</td> </tr> <tr> <td>C7</td> <td>Workshop</td> <td style="text-align: center;">1</td> <td style="text-align: right;">8,757.60</td> </tr> <tr> <td>C9</td> <td>Workshop</td> <td style="text-align: center;">1</td> <td style="text-align: right;">1,598.20</td> </tr> <tr> <td>C10</td> <td>Workshop</td> <td style="text-align: center;">1</td> <td style="text-align: right;">3,026.06</td> </tr> <tr> <td>C11</td> <td>Warehouse</td> <td style="text-align: center;">1</td> <td style="text-align: right;">2,871.06</td> </tr> <tr> <td>C12</td> <td>Workshop</td> <td style="text-align: center;">1</td> <td style="text-align: right;">1,921.25</td> </tr> <tr> <td>C13</td> <td>Workshop</td> <td style="text-align: center;">1</td> <td style="text-align: right;">5,823.60</td> </tr> <tr> <td>C14</td> <td>Workshop</td> <td style="text-align: center;">1</td> <td style="text-align: right;"><u>4,116.00</u></td> </tr> <tr> <td colspan="3" style="text-align: right;">Total:</td> <td style="text-align: right;"><u>38,153.63</u></td> </tr> </tbody> </table> <p>The ancillary structures mainly include boiler room, timber huts, dormitory, boundary fences, guard room and gates.</p> <p>The above buildings and ancillary structures were completed in between 2007 to 2009.</p> <p>The land use rights of the property have been granted for a term expiring on 26 January 2061 for industrial use.</p> | Block | Use | Story | Gross Floor Area (sq.m.) | C2 | Composite Building | 6 | 3,181.65 | C3 | Warehouse | 1 | 6,258.12 | C4 | Canteen | 1 | 600.09 | C7 | Workshop | 1 | 8,757.60 | C9 | Workshop | 1 | 1,598.20 | C10 | Workshop | 1 | 3,026.06 | C11 | Warehouse | 1 | 2,871.06 | C12 | Workshop | 1 | 1,921.25 | C13 | Workshop | 1 | 5,823.60 | C14 | Workshop | 1 | <u>4,116.00</u> | Total: | | | <u>38,153.63</u> | <p>The property is occupied by the Group as production workshops, warehouses, administrative offices, product showroom and staff dormitories.</p> | <p>70,300,000</p> <p>(100% interest attributable to the Group: 70,300,000)</p> |
| Block | Use | Story | Gross Floor Area (sq.m.) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C2 | Composite Building | 6 | 3,181.65 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C3 | Warehouse | 1 | 6,258.12 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C4 | Canteen | 1 | 600.09 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C7 | Workshop | 1 | 8,757.60 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C9 | Workshop | 1 | 1,598.20 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C10 | Workshop | 1 | 3,026.06 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C11 | Warehouse | 1 | 2,871.06 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C12 | Workshop | 1 | 1,921.25 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C13 | Workshop | 1 | 5,823.60 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| C14 | Workshop | 1 | <u>4,116.00</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total: | | | <u>38,153.63</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Notes:

- As revealed from a State-owned Land Use Rights Contract (Ref: 35088120110125G001) dated 27 January 2011, the land use rights of the property with an area of 90,049 square metres were granted by the Land and Resources Bureau of Zhangping (漳平市國土資源局) to Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司) at a consideration of RMB13,870,000 for a term of 50 years. As confirmed by the Company, the land premium for the land grant has been settled in full by Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司).

2. As revealed from a State-owned Land Use Rights Certificate (Ref: Zhang Guo Yong (2011) Zi Di No. 0103 (漳國用(2011)字第0103號) dated 20 March 2011, the land use rights of the property (Lot No. 106/2/331) with an area of 90,049 square metres are held by Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司) for a land use right term expiring on 26 January 2061 for industrial use.
3. Four sets of Building Ownership Certificate (Ref: Fang Quan Zheng Zhang Fang Zi Di Nos. 201100998, 201100999, 201101000 and 201101001 (房權證漳房字第201100998, 201100999, 201101000, 201101001號)) were issued in the name of Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司) on 1 April 2011 in connection with the buildings of the property with a total gross floor area of 38,153.63 square metres.
4. As revealed by the Construction Land Use Planning Permit (建設用地規劃許可證) (Ref: 5300471) issued by the Town Planning and Construction Bureau of Zhangping (漳平市城鄉規劃建設局) on 15 December 2006, the existing use of the subject land with an area of approximately 72,745 square metres is consistent with the town planning controls.
5. As revealed by the Planning Permit for Construction Works (建設工程規劃許可證) (Ref: 5300471) issued by the Town Planning and Construction Bureau of Zhangping (漳平市城鄉規劃建設局) on 15 December 2006, the construction of the subject buildings with a total planned gross floor area of 51,748 square metres are consistent with the town planning controls and was approved.
6. As Construction Works Commencement Permits (建築工程施工許可證) (Ref. No. 352626200707180101) in relation to the property were issued by the Town Planning and Construction Bureau of Zhangping (漳平市城鄉規劃建設局) dated 18 July 2007.
7. In accordance with the information provided by the Group, the status of title and grant of major approvals and licences are as follows:

| | |
|---|-----|
| State-owned Land Use Rights Contract | Yes |
| State-owned Land Use Rights Certificate | Yes |
| Construction Land Use Planning Permit | Yes |
| Planning Permit for Construction Works | Yes |
| Construction Works Commencement Permits | Yes |
| Building Ownership Certificate | Yes |
8. In addition to the buildings and structures mentioned above, there are three wooden building structures erected on the property. As confirmed by the Company, these three structures are mainly used for product demonstration purposes. In the valuation of the property, we have attributed no commercial value to them as all of them are simple wooden structures. However, for reference purpose, we are of the opinion that the replacement cost of these simple wooden structures (excluding the land element) would be in the sum of RMB1,700,000 as of the date of valuation.
9. The opinion from the PRC Legal Adviser of the Company on the property is as follows:
 - i. Fujian Zhangping Kimura Forestry Products Co., Ltd. has obtained the State-owned Land Use Rights Certificate for the property. All land premium and related taxes have been paid in full;
 - ii. Fujian Zhangping Kimura Forestry Products Co., Ltd. has obtained the Building Ownership Certificate for the property and is the legal owner of the buildings of the property;
 - iii. The existing use of the land parcels and buildings of the property is legal and valid and is consistent with the permitted use as stated in the State-owned Land Use Rights Certificate and Building Ownership Certificates of the property;

- iv. the land use rights and building ownership rights of the property are legally held by Fujian Zhangping Kimura Forestry Products Co., Ltd.;
- v. the property is not subject to any unusual covenant or restriction of onerous in nature;
- vi. Fujian Zhangping Kimura Forestry Products Co., Ltd. has the rights to transfer, lease and mortgage the property; and
- vii. Pursuant to a maximum mortgage contract Ref: Year 2011 Jian Yan Zhong Gao Di Zi No. 1 (2011年建岩漳高抵字一號) dated 22 April 2011, the land use right and the building ownership rights of the property and the land use right of the property numbered 4 of this report are subject to a mortgage in favor of Construction Bank of China — Zhangping Sub-Branch (中國建設銀行股份有限公司漳平市支行) for a maximum loan amount of RMB61,000,000 for a term from 22 April 2011 to 22 April 2014. Save for the mortgage, the property is free from any liens, mortgage, leases, licenses or other encumbrances or third party rights that would adversely impact to the use, transfer or assign of the property.

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group

| Property | Description and tenure | Particulars of occupancy | Market Value in existing state as at 30 April 2012 RMB |
|--|--|---|---|
| 4. Land located in Chunwei Village, Heping Town, Zhangping City, Fujian Province, the PRC. (中國福建省漳平市和平鎮春尾村之土地) Lot No. 106/2/330 | <p>The property comprises a parcel of land with an area of approximately 18,349 square metres on which two temporary structures are erected.</p> <p>The land use rights of the property have been granted for a term expiring on 26 January 2061 for industrial use.</p> | The property is occupied by the Group as production workshops and warehouses. | 6,800,000 (100% interest attributable to the Group: 6,800,000) |

Notes:

1. As revealed from a State-owned Land Use Rights Contract (Ref: 35088120110125G002) dated 27 January 2011, the land use rights of the subject land parcel with an area of 18,349 square metres were granted by the Land and Resources Bureau of Zhangping (漳平市國土資源局) to Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司) at a consideration of RMB2,630,000 for a term of 50 years. As confirmed by the Company, the land premium for the land grant has been settled in full by Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司).
2. As revealed from a State-owned Land Use Rights Certificate (Ref: Zhang Guo Yong (2011) Zi Di No. 0102 (漳國用(2011)字第0102號) dated 20 March 2011, the land use rights of the subject land parcel (Lot No. 106/2/330) with an area of 18,349 square metres are held by Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司) for a land use right term expiring on 26 January 2061 for industrial use.
3. In accordance with the information provided by the Group, the status of title and grant of major approvals and licences are as follows:

| | |
|---|-----|
| State-owned Land Use Rights Contract | Yes |
| State-owned Land Use Rights Certificate | Yes |
4. The opinion from the PRC Legal Adviser of the Company on the property is as follows:
 - i. Fujian Zhangping Kimura Forestry Products Co., Ltd. has obtained the State-owned Land Use Rights Certificate and is the legal owner of the land use rights of the property. All the land premium payments and related taxes have been paid in full;
 - ii. The existing use of the property is legal and valid and is consistent with the permitted use as stated in the State-owned Land Use Rights Certificate;
 - iii. the land use rights and building ownership rights of the property are legally held by Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司);
 - iv. the property is not subject to any unusual covenant or restriction of onerous in nature;

- v. Fujian Zhangping Kimura Forestry Products Co., Ltd. has the rights to transfer, lease and mortgage the property; and

- vi. Pursuant to a maximum mortgage contract Ref: Year 2011 Jian Yan Zhang Gao Di Zi No. 1 (2011年建岩漳高抵字一號) dated 22 April 2011, the land use right of the property and the land use right and the building ownership rights of the property numbered 3 of this report are subject to a mortgage in favor of Construction Bank of China — Zhangping Sub-Branch (中國建設銀行股份有限公司漳平市支行) for a maximum loan amount of RMB61,000,000 for a term from 22 April 2011 to 22 April 2014. Save for the mortgage, the property is free from any liens, mortgage, leases, licenses or other encumbrances or third party rights that would adversely impact to the use, transfer or assign of the property.

VALUATION CERTIFICATE

Group II — Property interests rented by the Group

| Property | Description and tenure | Particulars of occupancy | Market Value in existing state as at 30 April 2012 RMB |
|---|--|---|---|
| 5. Room 3E-1682, No. 2123 Pudong Avenue, Pudong New Area, Shanghai City, the PRC. (中國上海市浦東新區浦東大道2123號3E-1682室) | <p>The property comprises an office unit within a 28-storey office building which was completed in about 2006.</p> <p>The property has a lettable area of approximately 20 square metres.</p> <p>The property is held by the Group under a tenancy for a term of 3 years commencing on 20 December 2011 and expiring on 19 December 2014 at gratuitous rental.</p> | The property is currently occupied by the Group as an office. | No commercial value |

Notes:

1. Pursuant to a tenancy agreement dated 30 December 2011, Merry Garden (Shanghai) Household Co., Ltd. (美麗家園(上海)家居有限公司), an indirect wholly owned subsidiary of the Company, rented the property from Shanghai Lu Fan Marine Services Co., Ltd. (上海陸帆海事服務有限公司) which is an independent third party to the Group for a term of 3 years commencing on 20 December 2011 and expiring on 19 December 2014 at gratuitous rental.
2. The opinion from the PRC legal adviser of the Company on the property is as follows:
 - i. Pursuant to a Shanghai Certificate of Real Estate Ownership (上海市房地產權證) (Ref: Hu Fang Di Pu Zi (2008) Di No. 061718 (滬房地浦字(2008)第061718號), the registered owner of the property is Shanghai Pudong New Area Lujiazui Functional Zone Economic Development Promotion Centre (上海市浦東新區陸家嘴功能區域經濟發展促進中心);
 - ii. Pursuant to a tenancy agreement dated 30 December 2011, Merry Garden (Shanghai) Household Co., Ltd. (美麗家園(上海)家居有限公司) rented the property from Shanghai Lu Fan Marine Services Co., Ltd. (上海陸帆海事服務有限公司) acting as the lawful attorney and agent and on behalf of Shanghai Pudong New Area Lujiazui Functional Zone Economic Development Promotion Centre (上海市浦東新區陸家嘴功能區域經濟發展促進中心) for a term of 3 years commencing on 20 December 2011 and expiring on 19 December 2014 at gratuitous rental;
 - iii. As revealed from a power of attorney dated 1 January 2009, Pudong New Area Lujiazui Functional Zone Economic Development Promotion Centre (上海市浦東新區陸家嘴功能區域經濟發展促進中心) authorized Shanghai Lu Fan Marine Services Co., Ltd. (上海陸帆海事服務有限公司) to operate and manage of the property for a term expiring on 31 December 2014;
 - iv. Shanghai Pudong New Area Lujiazui Functional Zone Economic Development Promotion Centre (上海市浦東新區陸家嘴功能區域經濟發展促進中心) is the legal owner of the property and entitled to authorize Shanghai Lu Fan Marine Services Co., Ltd. (上海陸帆海事服務有限公司) to rent the property to Merry Garden (Shanghai) Household Co., Ltd. (美麗家園(上海)家居有限公司);

- v. Merry Garden (Shanghai) Household Co., Ltd. (美麗家園(上海)家居有限公司) has the right to use the property legally within the unexpired term of tenancy. The existing use of the property is in compliance with the permitted use stated in the tenancy agreement;

- vi. According to the Confirmation Letter issued by Merry Garden (Shanghai) Household Co., Ltd., the tenancy agreement is duly performed by Merry Garden (Shanghai) Household Co., Ltd. and no party engaged in to the tenancy agreement has breached any terms of the tenancy agreement and therefore there is no foreseeable reason that would cause any challenge or penalty from the relevant government authorities due to the breach of the tenancy agreement; and

- vii. According to the Confirmation Letter issued by Merry Garden (Shanghai) Household Co., Ltd., Merry Garden (Shanghai) Household Co., Ltd. has not received any notice, order or suggestion from the government authorities in respect of the property which would affect the value of the property, or the continuation of use of the property under the tenancy agreement. There is no unreasonable or abnormal undertakings, terms, conditions, or restriction on the tenancy agreement engaged by Merry Garden (Shanghai) Household Co., Ltd.

VALUATION CERTIFICATE

Group II —Property interests rented by the Group

| Property | Description and tenure | Particulars of occupancy | Market Value in existing state as at 30 April 2012 <i>RMB</i> |
|--|--|---|--|
| 6. Room 2702 on 27 th Floor, China Resources Building, No. 26 Harbour Road, Wan Chai, Hong Kong | <p>The property comprises an office unit on 27th Floor of a 50-storey commercial building (excluding 3-storey car park basements) completed in about 1982.</p> <p>The property has a lettable area of approximately 887 square feet (82.41 square metres).</p> <p>The property is held by the Group under a tenancy for a term of two years commencing on 7 May 2012 and expiring on 6 May 2014 at a monthly rental of HK\$57,655 exclusive of rates, air-conditioning charges, management fee and other outgoings.</p> | The property is currently occupied by the Group as an office. | No commercial value |

Notes:

1. Pursuant to a tenancy agreement dated 16 May 2012, King Wood (Hong Kong) Holding Limited, an indirect wholly owned subsidiary of the Company, rented the property from China Resources Property Management Limited (acting as the lawful attorney and agent and on behalf of Eastern World Development Limited) which is an independent third party to the Group for a term of two years commencing on 7 May 2012 and expiring on 6 May 2014 at a monthly rental of HK\$57,655 exclusive of rates, air-conditioning charges, management fee and other outgoings for office use.
2. According to the Land Registry records, the registered owner of the property is Eastern World Development Limited, an independent third party to the Group.
3. The property is held under Conditions of Grant No. 11470 for a term of 75 years renewable for 75 years commencing on 14 January 1980.
4. The property lies within an area zoned "Commercial" under Approved Wan Chai North Outline Zoning Plan No. S/H25/2.

APPENDIX V SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands Company Law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 17 October 2011 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 15 June 2012. The following is a summary of certain provisions of the Articles:

(a) **Directors**

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

APPENDIX V SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to

**APPENDIX V SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or

**APPENDIX V SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

**APPENDIX V SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

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The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

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(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

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(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have

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been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

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The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;

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(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

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The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

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Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

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(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

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Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) **Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) **Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

APPENDIX V SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by

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the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable

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shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

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(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

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(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 1 November 2011.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from

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time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) **Winding up**

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

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As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) **Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) **Compulsory acquisition**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) **Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. **GENERAL**

Conyers Dill & Pearman (Cayman) Limited, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 17 October 2011. Our Company was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance on 2 April 2012 and our Company has established its principal place of business in Hong Kong at Room 2702, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. Li & Partners has been appointed as our agent for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the relevant laws of the Cayman Islands and its constitution which comprises a memorandum of association and an articles of association. A summary of the relevant aspects of the Cayman Companies Law and certain provisions of the Articles of Association and the Memorandum of Association are set out in Appendix V to this prospectus.

2. Changes in share capital of our Company

As at the date of incorporation of our Company, its authorised share capital was HK\$390,000 divided into 390,000 Shares of HK\$1.00 each. The following sets out the changes in the share capital of our Company since the date of its incorporation:

- (a) On 17 October 2011, our Company (i) allotted and issued one Share to the initial subscriber, Codan Trust Company (Cayman) Limited which then transferred the same to Mr. Wu at par value; and (ii) allotted and issued at par value 9,160 Shares, 559 Shares, 140 Shares and 140 Shares to Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan, respectively. Upon completion of the said transfer, allotment and issue of Shares, Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan respectively held 9,161 Shares, 559 Shares, 140 Shares and 140 Shares, representing 91.61%, 5.59% and 1.4% and 1.4% of the then issued share capital of our Company.
- (b) On 27 March 2012, (i) each of the issued and unissued Shares of HK\$1 each in the share capital of our Company was sub-divided into 100 Shares of HK\$0.01 each, resulting in our Company having an issued share capital of HK\$10,000 divided into 1,000,000 Shares of HK\$0.01 each; (ii) Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan transferred 146,576 Shares, 8,944 Shares, 2,240 Shares and 2,240 Shares to Hong Kong Investments pursuant to two supplemental cooperation agreements both dated 1 March 2012 to the cooperation agreements among the parties dated 28 April 2010 and 8 November 2011 for respective considerations of RMB37,376,880, RMB2,280,720, RMB571,200 and RMB571,200; (iii) Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan transferred 54,966 Shares, 3,354 Shares, 840 Shares and 840 Shares to Fu Tak Investments pursuant to the supplemental agreement dated 1 March 2012 to the cooperation agreement among the parties dated 28 April 2010 for respective considerations of RMB10,993,200, RMB670,800, RMB168,000 and RMB168,000; (iv) Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan transferred 109,932 Shares, 6,708 Shares, 1,680 Shares and 1,680 Shares to Haili International pursuant to the supplemental agreement dated 1 March 2012 to the cooperation agreement among the parties dated 28 April 2010 for respective considerations of RMB21,986,400, RMB1,341,600, RMB336,000 and RMB336,000; (v) Mr. Wu, Mr. QS Wu, Ms. Xie and Ms.

Yan transferred 45,805 Shares, 2,795 Shares, 700 Shares and 700 Shares to Great Success pursuant to the supplemental agreement dated 1 March 2012 to the cooperation agreement among the parties dated 28 April 2010 for respective considerations of RMB9,161,000, RMB559,000, RMB140,000 and RMB140,000; and (vi) Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan transferred 9,161 Shares, 559 Shares, 140 Shares and 140 Shares to Oceanid Investment pursuant to the supplemental agreement dated 1 March 2012 to the cooperation agreement among the parties dated 28 May 2010 for respective considerations of RMB1,832,200, RMB111,800, RMB28,000 and RMB28,000. Upon completion of the aforesaid sub-division and transfers of Shares, Mr. Wu, Mr. QS Wu, Ms. Xie, Ms. Yan, Hong Kong Investments, Fu Tak Investments, Haili International, Great Success and Oceanid Investment respectively held 549,660 Shares, 33,540 Shares, 8,400 Shares, 8,400 Shares, 160,000 Shares, 60,000 Shares, 120,000 Shares, 50,000 Shares and 10,000 Shares, representing 54.966%, 3.354%, 0.84%, 0.84%, 16%, 6%, 12%, 5% and 1% of the then issued share capital of our Company.

- (c) On 16 April 2012, Mr. Wu transferred all the Shares he held in our Company to Green Seas in consideration of Green Seas' allotment and issue of 1 share to him. Upon completion of the said transfer of Shares, Green Seas, Mr. QS Wu, Ms. Xie, Ms. Yan, Hong Kong Investments, Fu Tak Investments, Haili International, Great Success and Oceanid Investment respectively held 549,660 Shares, 33,540 Shares, 8,400 Shares, 8,400 Shares, 160,000 Shares, 60,000 Shares, 120,000 Shares, 50,000 Shares and 10,000 Shares, representing 54.966%, 3.354%, 0.84%, 0.84%, 16%, 6%, 12%, 5% and 1% of the then issued share capital of our Company.

Immediately following completion of the Capitalisation Issue and the Global Offering and assuming that the Over-allotment Option is not exercised, the authorised share capital of our Company will be HK\$100,000,000 divided into 10,000,000,000 Shares, of which 1,000,000,000 Shares will be issued fully paid or credited as fully paid, and 9,000,000,000 Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed "A. Further Information about our Group — 4. Written resolutions of our Shareholders passed on 15 June 2012" in this Appendix, our Directors do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Saved as disclosed in this Appendix, there has been no alternation in the share capital of our Company since the date of our incorporation.

3. Change in share capital of our subsidiaries

The alterations in the share capital (or registered capital, as the case might be) of our subsidiaries which took place within two years preceding the date of this prospectus are set out as follows:

Green Oceans

- (a) Green Oceans was incorporated on 7 November 2011 in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each.
- (b) On its date of incorporation, Green Oceans allotted and issued, credited as fully paid, one share to our Company at par.

- (c) On 3 January 2012, Green Oceans acquired all shares held by Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan in King Wood, and in consideration therefor, Green Oceans issued 9 shares, credited as fully paid, to our Company.

King Wood

- (a) King Wood was incorporated on 5 August 2010 in Hong Kong with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each.
- (b) On its date of incorporation, King Wood allotted and issued 9,161 shares, 559 shares, 140 shares and 140 shares, credited as fully paid, to Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan respectively.
- (c) On 3 January 2012, Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan transferred their respective shares in King Wood to Green Oceans in consideration of Green Oceans' allotment and issue of 9 shares to our Company.

Zhangping Kimura

- (a) Zhangping Kimura was established in the PRC on 1 December 1995 with a registered capital of RMB2.5 million.
- (b) On its date of incorporation, JJMC and Isawa Limited held 60% and 40% equity interests in Zhangping Kimura respectively.
- (c) On 15 May 2000, the board of directors of Zhangping Kimura resolved to increase Zhangping Kimura's registered capital to RMB10 million, whereby JJMC and Isawa Limited held 75% and 25% equity interests in Zhangping Kimura upon completion of the said capital increase.
- (d) On 16 January 2006, the board of directors of Zhangping Kimura resolved to further increase Zhangping Kimura's registered capital to RMB21 million and introduce new equity holders namely Mr. Wu, Mr. QS Wu, Mr. Li Xueyan, Ms. Yan and Ms. Xie in consideration of their respective contributions of RMB4.055 million, RMB1.1 million, RMB329,000, RMB220,500 and RMB220,500 into the registered capital of Zhangping Kimura. Upon completion of the said capital increase, JJMC, Isawa Limited, Mr. Wu, Mr. QS Wu, Mr. Li Xueyan, Ms. Yan and Ms. Xie held 46.78%, 25%, 19.31%, 5.24%, 1.57%, 1.05% and 1.05% equity interests, respectively, in Zhangping Kimura.
- (e) On 16 October 2008, Mr. Li Xueyan agreed to transfer his 1.567% equity interests in Zhangping Kimura to Mr. Wu at the consideration of RMB329,000. Upon completion of the said equity transfer, JJMC, Isawa Limited, Mr. Wu, Mr. QS Wu, Ms. Yan and Ms. Xie held 46.786%, 25%, 20.876%, 5.238%, 1.05% and 1.05% equity interests, respectively, in Zhangping Kimura.
- (f) On 28 April 2010, each of JJMC and Mr. QS Wu entered into an equity transfer agreement with Mr. Wu pursuant to which each of JJMC and Mr. QS Wu agreed to transfer its/his 46.786% and 1.0489% equity interests in Zhangping Kimura to Mr. Wu at the considerations of RMB9.825 million and RMB220,100, respectively. Upon completion of the said equity transfers, Isawa Limited, Mr. Wu, Mr. QS Wu, Ms. Yan and Ms. Xie held 25%, 68.71%, 4.19%, 1.05% and 1.05%, respectively, in Zhangping Kimura.

- (g) On 18 August 2010, each of Isawa Limited, Mr. Wu, Mr. QS Wu, Ms. Yan and Ms. Xie entered into an equity transfer agreement with King Wood pursuant to which each of Mr. Wu, Mr. Qs Wu, Ms. Yan and Ms. Xie agreed to transfer its/his/her entire equity interests in Zhangping Kimura to King Wood at the respective considerations of RMB5.25 million, RMB14.4291 million, RMB879,900, RMB220,500 and RMB220,500. The said considerations were based on their respective original capital contributions in Zhangping Kimura. Upon completion of the aforesaid equity transfers, on 17 September 2010, Zhangping Kimura was converted into a wholly foreign-owned enterprise.
- (h) On 18 October 2010, the board of directors of Zhangping Kimura resolved to increase the registered capital of Zhangping Kimura from RMB21 million to RMB50 million.

Save as described above and in the section headed “Company History and Reorganisation” in this prospectus, there has been no other alteration in the share capital of our subsidiaries within two years preceding the date of this prospectus.

4. Written resolutions of our Shareholders passed on 15 June 2012

Pursuant to the written resolutions passed by all our Shareholders on 15 June 2012, the following resolutions, among other resolutions, were duly passed:

- (a) (i) our Company approved and adopted the amended and restated Memorandum of Association;
- (ii) our Company approved and adopted the Articles of Association, the terms of which are summarised in Appendix V to this prospectus, conditional upon our Shares being listed on the Stock Exchange on the Listing Date;
- (b) the authorised share capital of our Company was increased from HK\$390,000 to HK\$100,000,000 by the creation of additional 9,961,000,000 Shares;
- (c) conditional on (i) the Listing Committee of the Hong Kong Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any additional Shares which may be issued pursuant to the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme); (ii) the entering into of the agreement on the Offer Price between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms thereof or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:
- (i) the Global Offering and the Over-allotment Option were approved and our Directors were authorised to allot and issue new Shares under the Global Offering and such number of Shares as may be allotted and issued upon the exercise of the Over-allotment Option;

- (ii) conditional on the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the Global Offering, the Directors were authorised to capitalise HK\$8,190,000 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 819,000,000 Shares (the “Capitalisation Shares”) for allotment and issue to the persons whose names appear on the principal register of members of our Company in the Cayman Islands at 8:00 a.m. (Hong Kong time) on the Listing Date in proportion (or as nearly as possible without involving fractions) to their respective shareholdings in our Company, and the Shares to be allotted and issued shall rank *pari passu* in all respects with the existing issued Shares; and our Directors were authorised to register the names of such Shareholders on our Company’s principal register of members in the Cayman Islands at or around 8:05 a.m. (Hong Kong time) on the Listing Date as holders of the relevant number of Capitalisation Shares allotted and issued to such persons;
- (iii) the rules of the Share Option Scheme were approved and adopted, and our Directors were authorised, at their absolute discretion, to (i) administer the Share Option Scheme, (ii) modify/amend the Share Option Scheme from time to time as requested by the Hong Kong Stock Exchange, (iii) grant options to subscribe for Shares under the Share Option Scheme, (iv) allot, issue and deal with the Shares issued pursuant to the Share Option Scheme, (v) make application at the appropriate time or times to the Hong Kong Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be allotted and issued pursuant to the exercise of the options granted under the Share Option Scheme; (vi) take all such steps as they consider necessary or desirable to implement the Share Option Scheme and (vii) vote on any matter connected therewith notwithstanding that they or any of them may be interested in the same;
- (d) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than pursuant to a rights issue or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or upon exercise of the options that may be granted under the Share Option Scheme or other similar arrangement or pursuant to a specific authority granted by our Shareholders in a general meeting, Shares with a total nominal value not exceeding 20% of the aggregate nominal value of the share capital of our Company in issue and to be issued immediately following completion of the Capitalisation Issue and the Global Offering but without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, such mandate to remain in effect until (i) the conclusion of the next annual general meeting of our Company, (ii) the expiration of the period within which the next annual general meeting of our Company is required by any applicable laws or the Articles of Association to be held, or (iii) until revoked, varied or renewed by an ordinary resolution of our Shareholders in general meeting of our Company, whichever occurs first;
- (e) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase on the Hong Kong Stock Exchange or on any other approved stock

exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Hong Kong Stock Exchange for this purpose, in accordance with all applicable laws and the requirements of the Listing Rules or equivalent rules or regulations of such other stock exchange, such number of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the share capital of our Company in issue and to be issued immediately following completion of the Capitalisation Issue and the Global Offering but without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, such mandate to remain in effect until (i) the conclusion of the next annual general meeting of our Company, (ii) the expiration of the period within which the next annual general meeting of our Company is required by and applicable laws or the Articles of Association to be held, or (iii) until revoked, varied or renewed by an ordinary resolution of our Shareholders in general meeting of our Company, whichever occurs first; and

- (f) the general unconditional mandate mentioned in paragraph (d) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted, issued or dealt with by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (e) above.

5. Repurchase of our Shares

This section includes information relating to the repurchases of securities, including information required by the Hong Kong Stock Exchange to be included in this prospectus concerning such repurchase.

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies whose primary listing is on the Hong Kong Stock Exchange to repurchase their securities on the Hong Kong Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) *Shareholders' approval*

All proposed repurchases of Shares must be approved in advance by an ordinary resolution of the Shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to the written resolutions passed on 15 June 2012 by all our Shareholders, the Repurchase Mandate was granted to the Directors to exercise all powers of our Company to repurchase on the Hong Kong Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Hong Kong Stock Exchange for this purpose, in accordance with all applicable laws and the requirements of the Listing Rules or equivalent rules or regulations of such other stock exchange, such number of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue or to be issued immediately following completion of the Capitalisation Issue and the Global

Offering (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and options that may be granted under the Share Option Scheme), at any time until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by any applicable laws or the Articles of Association to be held or when such mandate is revoked, varied or renewed by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

(ii) *Source of funds*

Any repurchases of Shares by us must be paid out of funds legally available for the purpose in accordance with the Articles of Association, the Listing Rules, the Cayman Companies Law and the applicable laws of the Cayman Islands. We are not permitted to repurchase our Shares on the Hong Kong Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Hong Kong Stock Exchange from time to time.

(b) *Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) *Funding of repurchases*

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules, the Cayman Companies Law and the applicable laws of the Cayman Islands. Any repurchase of Shares will be made out of the profits of our Company, the share premium account of our Company or out of a fresh issue of Shares made for the purpose of the purchases or, if authorised by the Articles of Association and subject to the Cayman Companies Law, out of capital and, in the case of any premium payable on the purchase, out of either or both of the profits of our Company or the share premium account of our Company, or if authorised by the Articles of Association and subject to the Cayman Companies Law, out of capital.

On the basis of our Company's current financial position as disclosed in this prospectus and taking into account its current working capital position, our Directors consider that, if the Repurchase Mandate is exercised in full, it might have a material adverse effect on our working capital and/or gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or its gearing levels which, in the opinion of our Directors, as from time to time appropriate for our Company.

(d) *General*

None of our Directors nor, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules), has any present intention to sell any Shares to our Company or its subsidiaries.

The Directors have undertaken to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands.

If, as a result of any repurchase of Shares, a shareholder's proportionate interest in the voting rights is increased, such increase will be treated as acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert (within the meaning under the Takeovers Code, depending on the level of increase in the interest of our Shareholder(s), could obtain or consolidate control of our Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

No connected person (as defined in the Listing Rules) has notified our Company that he/she or it has a present intention to sell any Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

6. The Reorganisation

The companies comprising our Group underwent the Reorganisation in preparation for the listing of the Shares on the Hong Kong Stock Exchange. For information with regard to our Reorganisation, please refer to the section headed "Company History and Reorganisation" in this prospectus for details.

7. Particulars of our PRC subsidiaries

Our Company had the following subsidiaries established in the PRC, the basic information of which as at the Latest Practicable Date is set out as follows:

Zhangping Kimura

| | |
|------------------------|--|
| Date of Incorporation: | 17 December 1995 |
| Term: | For 50 years commencing from 17 December 1995 to 16 December 2045 |
| Nature: | Limited liability company |
| Registered capital: | RMB50 million |
| Attributable interest: | 100% |
| Scope of business: | Processing and production of high-tech wood and bamboo products, wood, bamboo, plastic and metal-modular furniture, timber villas, garden landscape products; anti-corrosive and thermo-modified wood, arts and crafts |

Merry Garden Wooden Structure

| | |
|------------------------|--|
| Date of Incorporation: | 12 June 2010 |
| Term: | For 50 years commencing from 12 June 2010 to 11 June 2060 |
| Nature: | Limited liability company |
| Registered capital: | RMB1 million |
| Attributable interest: | 100% |
| Scope of business: | Research and development, design and installation of timber villas, garden landscape and courtyard designs and other wooden structures |

Merry Garden (Shanghai)

| | |
|------------------------|---|
| Date of Incorporation: | 24 February 2012 |
| Term: | For 20 years commencing from 24 February 2012 to 23 February 2032 |
| Nature: | Limited liability company |
| Registered capital: | RMB1 million |
| Attributable interest: | 100% |
| Scope of business: | Sales of household goods, furniture, timber and wooden products, metal products, plastic products and landscape arts and crafts |

B. FURTHER INFORMATION ABOUT OUR BUSINESS**1. Summary of the material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) the equity transfer agreement of Zhangping Kimura (福建省漳平木村林產有限公司股權轉讓協議) dated 18 August 2010 entered into between Mr. Wu as transferor and King Wood as transferee, pursuant to which Mr. Wu agreed to transfer 68.71% equity interests in Zhangping Kimura to King Wood at a consideration of RMB14,429,100;
- (b) the equity transfer agreement of Zhangping Kimura (福建省漳平木村林產有限公司股權轉讓協議) dated 18 August 2010 entered into between Mr. QS Wu as transferor and King Wood as transferee, pursuant to which Mr. QS Wu agreed to transfer 4.19% equity interests in Zhangping Kimura to King Wood at a consideration of RMB879,900;




- (c) the equity transfer agreement of Zhangping Kimura (福建省漳平木村林產有限公司股權轉讓協議) dated 18 August 2010 entered into between Ms. Yan as transferor and King Wood as transferee, pursuant to which Ms. Yan agreed to transfer 1.05% equity interests in Zhangping Kimura to King Wood at a consideration of RMB220,500;
- (d) the equity transfer agreement of Zhangping Kimura (福建省漳平木村林產有限公司股權轉讓協議) dated 18 August 2010 entered into between Ms. Xie as transferor and King Wood as transferee, pursuant to which Ms. Xie agreed to transfer 1.05% equity interests in Zhangping Kimura to King Wood at a consideration of RMB220,500;
- (e) the equity transfer agreement of Zhangping Kimura (福建省漳平木村林產有限公司股權轉讓協議) dated 18 August 2010 entered into between Isawa Limited as transferor and King Wood as transferee, pursuant to which Isawa Limited agreed to transfer 25% equity interests in Zhangping Kimura to King Wood at a consideration of RMB5,250,000;
- (f) the cooperation agreement (合作協議) dated 8 November 2011 entered into among Mr. Wu, Mr. QS Wu, Ms. Xie, Ms. Yan, Zhangping Kimura and Hong Kong Investments, pursuant to which Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan agreed to transfer a total of 4 % equity interest of the entity embracing Zhangping Kimura after the Reorganisation to Hong Kong Investments or its nominee at the consideration of RMB16.8 million, whereby the percentage of shares to be transferred by each of Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan should be proportionate to their existing shareholdings in Zhangping Kimura;
- (g) the agreement for the sale and purchase of shares in King Wood dated 3 January 2012 entered into among Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan as vendors, Green Oceans as purchaser, and our Company, pursuant to which Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan transferred all their respective shares in King Wood to Green Oceans in consideration of Green Oceans' allotment and issue of 9 fully paid shares to our Company;
- (h) the supplemental cooperation agreement (補充合作協議) dated 1 March 2012 entered into among our Company, Zhangping Kimura, Green Oceans, Mr. Wu, Green Seas, Mr. QS Wu, Ms. Xie, Ms. Yan, Hong Kong Investments and King Wood, pursuant to which Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan transferred 10.9932%, 0.6708%, 0.168% and 0.168% of the then issued share capital of our Company to Hong Kong Investments at the respective considerations of RMB21,986,400, RMB1,341,600, RMB336,000 and RMB336,000;
- (i) the supplemental cooperation agreement (補充合作協議) dated 1 March 2012 entered into among our Company, Zhangping Kimura, Green Oceans, Mr. Wu, Green Seas, Mr. QS Wu, Ms. Xie, Ms. Yan, Fu Tak Investments and King Wood, pursuant to which Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan transferred 5.4966%, 0.3354%, 0.084% and 0.084% of the then issued share capital of our Company to Fu Tak Investments at the respective considerations of RMB10,993,200, RMB670,800, RMB168,000 and RMB168,000;
- (j) the supplemental cooperation agreement (補充合作協議) dated 1 March 2012 entered into among our Company, Zhangping Kimura, Green Oceans, Mr. Wu, Green Seas, Mr. QS Wu, Ms. Xie, Ms. Yan, Mr. Ke Mingcai, Haili International and King Wood, pursuant to which Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan transferred 10.9932%, 0.6708%, 0.168% and 0.168% of the then issued share capital of our Company to Haili International at the respective considerations of RMB21,986,400, RMB1,341,600, RMB336,000 and RMB336,000;

- (k) the supplemental cooperation agreement (補充合作協議) dated 1 March 2012 entered into among our Company, Zhangping Kimura, Green Oceans, Mr. Wu, Green Seas, Mr. QS Wu, Ms. Xie, Ms. Yan, Mr. Cai Shaowei, Great Success and King Wood, pursuant to which Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan transferred 4.5805%, 0.2795%, 0.07% and 0.07% of the then issued share capital of our Company to Great Success at the respective considerations of RMB9,161,000, RMB559,000, RMB140,000 and RMB140,000;
- (l) the supplemental cooperation agreement (補充合作協議) dated 1 March 2012 entered into among our Company, Zhangping Kimura, Green Oceans, Mr. Wu, Green Seas, Mr. QS Wu, Ms. Xie, Ms. Yan, Oceanid Investment and King Wood, pursuant to which Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan transferred 0.9161%, 0.0559%, 0.014% and 0.014% of the then issued share capital of our Company to Oceanid Investment at the respective considerations of RMB1,832,200, RMB111,800, RMB28,000 and RMB28,000;
- (m) the second supplemental cooperation agreement (第二補充合作協議) dated 1 March 2012 entered into among our Company, Zhangping Kimura, Green Oceans, Mr. Wu, Green Seas, Mr. QS Wu, Ms. Xie, Ms. Yan, Hong Kong Investments and King Wood, pursuant to which Mr. Wu, Mr. QS Wu, Ms. Xie and Ms. Yan transferred 3.6644%, 0.2236%, 0.056% and 0.056% of the then issued share capital of our Company to Hong Kong Investments at the respective considerations of RMB15,390,480, RMB939,120 RMB235,200 and RMB235,200;
- (n) the Deed of Non-competition Undertaking dated 15 June 2012 entered into among Mr. Wu, Green Seas and our Company, details of which are disclosed in the section headed “Relationship with Controlling Shareholders and Directors” in this prospectus;
- (o) the Deed of Indemnity dated 15 June 2012 entered into among Mr. Wu, Green Seas and our Company, pursuant to which Mr. Wu and Green Seas have agreed to give certain indemnities in favour of our Company for itself and as trustee for its subsidiaries; and
- (p) the Hong Kong Underwriting Agreement.


2. Intellectual property rights of our Group

(a) Trademarks

As of the Latest Practicable Date, we registered the following trademarks which are material in relation to our Group’s business:

| Trademark | Place of Registration | Class | Registration Number | Registration Date | Expiry Date |
|---|-----------------------|-------|---------------------|-------------------|---------------|
|  | PRC | 20 | 1755962 | 28 April 2012 | 27 April 2022 |
|  | PRC | 20 | 1755961 | 28 April 2012 | 27 April 2022 |
|  | PRC | 19 | 4117052 | 14 April 2007 | 13 April 2017 |

As at the Latest Practicable Date, we applied for registration of the following trademark in Hong Kong:

| Trademark | Place of Application | Class | Application Number | Application Date |
|---|----------------------|-------|--------------------|------------------|
|  | Hong Kong | 20 | 302107485 | 8 December 2011 |

A.



B.

(b) *Patents*

As of the Latest Practicable Date, we registered the following patents which are material in relation to our Group's business:

| Patent Description | Type of Patent | Place of Registration | Patent Number | Effective Date | Expiry Date |
|---|----------------|-----------------------|-------------------|------------------|------------------|
| A type of dual-purpose desk and chair (一種兩用桌椅) | Utility model | PRC | ZL201020599664.1 | 9 November 2010 | 8 November 2020 |
| A type of chair with container (一種帶收納庫的椅子) | Utility model | PRC | ZL201020243188.X | 30 June 2010 | 29 June 2020 |
| A type of folding work table (一種折疊工作臺) | Utility model | PRC | ZL 201020687895.8 | 29 December 2010 | 28 December 2020 |
| A type of dual-purpose rabbit shed for rest and activities (一種休息活動雙用兔舍) | Utility model | PRC | ZL 201020696838.6 | 31 December 2010 | 30 December 2020 |
| Pleasure wooden house for children (兒童遊樂木屋) | Utility model | PRC | 201120223855.2 | 28 June 2011 | 27 June 2021 |
| A type of assembled pleasure device for children (一種組合式兒童玩樂裝置) | Utility model | PRC | 201120229335.2 | 30 June 2011 | 29 June 2021 |

As of the Latest Practicable Date, we applied for registration of the following patent which is material in relation to our Group's business:

| Patent Description | Type of Patent | Place of Application | Application Number | Application Date |
|---|------------------|----------------------|--------------------|------------------|
| Multifunctional box shaped device (多功能箱體裝置) | Invention patent | PRC | 201010612694.6 | 29 December 2010 |

(c) *Domain names*

As of the Latest Practicable Date, our Group had registered the following domain names:

| Domain Name | Registered Owner | Expiry Date |
|-----------------------------|------------------|------------------|
| www.kimura.cn | Zhangping Kimura | 16 July 2019 |
| www.acq-d.com | Zhangping Kimura | 12 December 2014 |
| www.merrygarden.net | Zhangping Kimura | 12 December 2014 |
| www.merrygardenholdings.com | Zhangping Kimura | 14 May 2015 |

C. DISCLOSURE OF INTERESTS

1. Interests and short position of Directors and the chief executive in the Shares, underlying Shares or debentures of our Company and its associated corporations

Immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option will not be exercised), based on the information available on the Latest Practicable Date, the interests or short positions of the Directors and the chief executive of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations (within the meaning of part XV of the SFO) which would have to be notified to our Company and the Hong Kong Stock Exchange pursuant to divisions 7 and 8 of part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to our Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 to the Listing Rules, will be as follows:

| Name of Director | Capacity / Nature of interest | Number of Shares | Approximate percentage of shareholding interest (%) |
|------------------|--|------------------|---|
| Mr. Wu | Interest in controlled corporation / Long position (<i>Note</i>) | 450,721,200 | 45.07% |
| Mr. QS Wu | Beneficial owner / Long position | 27,470,040 | 2.75% |
| Ms. Xie | Beneficial owner / Long position | 6,888,000 | 0.69% |

Note: Mr. Wu is deemed to be interested in the Shares held by Green Seas by virtue of Green Seas being controlled by Mr. Wu.

Save as disclosed above, based on the information available on the Latest Practicable Date, immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option will not be exercised), none of the Directors or chief executive of our Company had any interest or short position in the Shares, underlying Shares or debentures of our Company or any of its associate corporations which will have to be notified to our Company and the Hong Kong Stock Exchange pursuant to divisions 7 and 8 of part XV of the SFO (including interests and short positions which he will be taken or deemed to have under the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules relating to securities transactions by Directors to be notified to our Company and the Hong Kong Stock Exchange once our Shares are listed.

2. Interests and short positions of substantial Shareholders in the Shares or underlying Shares of our Company

Information on person(s), not being Directors or chief executive of our Company, who (based on the information available as at the Latest Practicable Date) will have, immediately following completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option will not be exercised), the interests or short positions in the Shares or underlying Shares of our Company which will fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO is set out below:

| Name | Capacity / Nature of interest | Number of Shares | Approximate percentage of shareholding interest (%) |
|-----------------------|--|------------------|---|
| Green Seas | Beneficial owner / Long position (Note 1) | 450,721,200 | 45.07% |
| Hong Kong Investments | Beneficial owner / Long position (Note 2) | 131,200,000 | 13.12% |
| Mr. Cheung Chi Mang | Interest in controlled corporation / Long position (Note 2) | 131,200,000 | 13.12% |
| Haili International | Beneficial owner / Long position (Note 3) | 98,400,000 | 9.84% |
| Mr. Ke Mingcai | Interest in controlled corporation / Long position (Note 3) | 98,400,000 | 9.84% |

Notes:

- The entire issued share capital of Green Seas is legally and beneficially owned by Mr. Wu, who is deemed to be interested in the Shares held by Green Seas by virtue of being controlled by Mr. Wu.

2. The entire issued share capital of Hong Kong Investments is legally and beneficially owned by Mr. Cheung Chi Mang, who is deemed to be interested in the Shares held by Hong Kong Investments by virtue of being controlled by Mr. Cheung Chi Mang.
3. The entire issued share capital of Haili International is legally and beneficially owned by Mr. Ke Mingcai, who is deemed to be interested in the Shares held by Haili International by virtue of being controlled by Mr. Ke Mingcai.

Save as set out above, based on the information available as at the Latest Practicable Date, taking no account of any Shares which may be taken up under the Global Offering, the Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following the completion of the Capitalisation Issue and the Global Offering, be interested, directly or indirectly, in an interest or short position in the shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of divisions 2 and 3 of part XV of the SFO.

3. Interests of the substantial shareholders of any member of our Group (other than our Company)

Save as set out above, the Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following the completion of the Capitalisation Issue and the Global Offering, be interested, directly or indirectly, in 10% or more of the nominal amount of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group (other than our Company) or any options in respect of such capital.

4. Particulars of service contracts

(a) *Executive Directors*

Each of the executive Directors has entered into a service contract with our Company for an initial term of three years with effect from their respective dates of appointment unless terminated by not less than three months' notice in writing served by either the executive Director or our Company.

Under their respective service contracts, each of the executive Directors is entitled to a fixed basic salary, with bonus and other non-cash benefits only payable at the discretion of our Company. In other certain circumstances, the contract can also be terminated by our Company, including but not limited to certain breaches of the Directors' obligations under the contract or certain misconducts. The appointments of the executive Directors are also subject to the provisions of retirement and rotation of Directors under the Articles of Association. The executive Directors are officially stationed in the PRC, but may be required to work in Hong Kong or in other places, as may be determined by the Board from time to time.

The service contracts further provide that during the term of the service contract and within one year upon the termination of service, each executive Director cannot engage in any business which is competing or is likely to compete, either directly or indirectly, with the business of our Group.

(b) *Non-executive Director and independent non-executive Directors*

Each of the non-executive Director and the independent non-executive Directors has signed an appointment letter with our Company for a term of three years with effect from the Listing Date.

Under their respective appointment letters, each of the Non-executive Director and the independent non-executive Directors is entitled to a fixed salary. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles of Association.

(c) *Others*

- (i) Save as disclosed above, none of the Directors has entered into any service contract with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).
- (ii) For the years ended 31 December 2009, 2010 and 2011, the aggregate of the remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and discretionary bonuses) paid and benefits granted to our Directors was RMB479,000, RMB612,000 and RMB630,000 respectively. Details of the Directors' remuneration are also set out in note 7 to the Accountants' Report set out in Appendix I to this prospectus.
- (iii) Under the arrangements currently in force, the aggregate of the remuneration and benefits in kind payable to the Directors for the year ending 31 December 2012 is estimated to be approximately RMB1.17 million.
- (iv) None of the directors or any past directors of any member of our Group has been paid any sum of money for the three years ended 31 December 2011 (i) as an inducement to join or upon joining our Company or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (v) There has been no arrangement under which a Director has waived or agreed to waive any remuneration or benefits in kind for three years ended 31 December 2011.

5. Agency fees or commissions received

None of the Directors, the promoter (if any) of our Company or the persons named under "Consent of experts" in this Appendix had received any discounts, brokerages or other special terms, agency fees or commissions from our Group in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this prospectus.

The Underwriters will receive such commission(s), fee(s) and/or expense(s) as mentioned in the section headed "Underwriting" in this prospectus.

6. Disclaimers

- (a) Save as in the section headed “Company History and Reorganisation” in this prospectus, none of the Directors or any of the persons whose names are listed in the paragraph headed “D. Other Information — 8. Consent of experts” in this Appendix are directly or indirectly interested in the promotion of our Company or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group.
- (b) Save as set out above, none of the Directors nor any of the persons whose names are listed in the paragraph headed “D. Other Information — 8. Consent of experts” in this Appendix are materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group.
- (c) Save as set out in the sections headed “Underwriting” and “Structure of the Global Offering”, none of the persons whose names are listed in the paragraph headed “D. Other Information — 8. Consent of experts” in this Appendix have any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of our Group or is an officer or a servant or partner of or in the employment of an officer or a servant of our Group.
- (d) We have no outstanding convertible securities.
- (e) None of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought from any other stock exchange.
- (f) Save as disclosed in this prospectus and so far as is known to the Directors, none of the Directors, their respective associates (as defined under the Listing Rules) or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group.

D. OTHER INFORMATION**1. Share Option Scheme**

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by a written resolution of our Shareholders passed on 15 June 2012 (the “Adoption Date”). The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

For the purpose of this section, unless the context otherwise requires:

“Date of Grant” means date of grant of the Option in accordance with the Share Option Scheme;

“Grantee” means any Eligible Person (as defined below) who accepts an offer of grant of any Option in accordance with the terms of the Share Option Scheme of (where the context so permits) a person who is entitled, in accordance with the laws of succession, to any Option in consequence of the death of the original Grantee;

“Option” means a right to subscribe for Shares granted pursuant to the Share Option Scheme;

“Option Period” means the period of time where the Grantee may exercise the Option, which period shall not be more than 10 years from the Date of Grant;

“Shares” means shares of HK\$0.01 each in the capital of our Company (or of such other nominal amount as shall result from a sub-division, consolidation, reclassification or reconstruction of the share capital of our Company from time to time).

(1) *Who may join*

The Directors may at their absolute discretion grant Options to all Directors (whether executive or non-executive and whether independent or not), any employee (whether full-time or part-time), any consultant or adviser of or to our Company or our Group (whether on an employment or contractual or honorary basis and whether paid or unpaid), who, in the absolute opinion of the Board, have contributed to our Company or our Group and each of the persons mentioned above is referred to as an “Eligible Person”.

(2) *Purpose of the Share Option Scheme*

The purpose of the Share Option Scheme is to provide person(s) and parties working for the interests of our Group with an opportunity to obtain an equity interest in our Company, thus linking their interests with the interests of our Group and thereby providing them with an incentive to work better for the interests of our Group.

(3) *Conditions*

The Share Option Scheme shall take effect subject to and is conditional upon:

- (i) the passing of the necessary resolution to approve and adopt the Share Option Scheme by the Shareholders in a general meeting;
- (ii) the Listing Committee granting approval of the listing of, and permission to deal in, any Shares which may be issued pursuant to the exercise of Options granted under the Share Option Scheme; and
- (iii) the commencement of dealings in the Shares on the Hong Kong Stock Exchange.

(4) *Duration and administration*

The Share Option Scheme shall continue in force for the period commencing from the Adoption Date and expiring at the close of business on the tenth anniversary of the Adoption Date (the “Scheme Period”), after which period no further Options shall be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects in respect of Options remaining outstanding and exercisable on the expiry of the Scheme Period.

The Scheme shall be subject to the administration of the Board whose decision (save as otherwise provided in the Share Option Scheme) shall be final and binding on all parties.

(5) *Grant of Options*

An offer of the grant of an Option shall be made to an Eligible Person in writing in such form as the Board may from time to time determine specifying, *inter alia*, the maximum number of Shares in respect of which such offer is made and requiring the Eligible Person to undertake to hold the Option on the terms of which it is to be granted and to be bound by the provisions of the Share Option Scheme and shall remain open for acceptance by the Eligible Person to whom the offer is made for a period of 21 days (or such other period as the Board may determine) from the date upon which the offer is issued provided that no such offer shall be open for acceptance after the expiry of the Scheme Period or after the Share Option Scheme has been terminated in accordance with the terms thereof.

On and subject to the terms of the Share Option Scheme, the Board shall be entitled at any time during the Scheme Period to offer to grant an Option to any Eligible Person as the Board may at its absolute discretion select, and subject to such conditions and restrictions as the Board may think fit.

An offer shall be deemed to have been accepted when the duplicate letter comprising acceptance of the Option, duly signed by the Eligible person, together with the remittance of HK\$1 in favor of our Company, irrespective of the number of Shares in respect of which the Option is accepted, as consideration for the grant is received by our Company.

The Date of Grant shall be the date on which the offer relating to such Option is duly approved by the Board in accordance with the Share Option Scheme.

(6) *Price sensitive information*

No offer of Options shall be made after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been published by our Company. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting for approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and (ii) the deadline of our Company to publish an announcement of our Company's results for any year or half-year period under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, no Options may be granted. The period during which no Option may be granted will cover any period of delay in the publication of a results announcement.

(7) *Grant of Options to connected persons*

Any grant of Option(s) to a connected person (as defined in the Listing Rules) of our Company under the Share Option Scheme must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Option).

Where any Options granted to a substantial shareholder (as defined in the Listing Rules) of our Company or an independent non-executive Director or any of their respective associates would result in the number and value of Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and

outstanding but excluding Options which have lapsed) to such person in the 12-month period up to and including the date of such grant (i) exceeding in aggregate over 0.1% of the Shares in issue; and (ii) exceeding an aggregate value, (based on the closing price of the Shares on the Stock Exchange at the Date of Grant) in excess of HK\$5 million, such further grant of Options must be approved by the shareholders by taking of a poll in a general meeting. Our Company must send a circular to the Shareholders. All connected persons (as defined in the Listing Rules) of our Company must abstain from voting (except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular) at the general meeting. The circular must contain: (i) details of the number and terms (including the Subscription Price (as defined below) of the Options to be granted to each Eligible Person, which must be fixed before the general meeting concerned; (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the Grantee of the Options) to the independent Shareholders as to voting; and (iii) the information required under the relevant provisions of Chapter 17 of the Listing Rules.

(8) *Subscription price*

The subscription price in respect of any particular Option (the “Subscription Price”) shall be such price as the Board may at its absolute discretion determine at the time of the grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option), but in any case the Subscription Price must be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the Date of Grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets for the five (5) business days immediately preceding the Date of Grant; and (iii) the nominal value of a Share. For the purpose of calculating the Subscription Price where our Company has been listed for less than five (5) business days, the Offer Price shall be used as the closing price of any business day falling within the period before Listing.

(9) *Rights are personal to Grantee*

An Option shall be personal to the Grantee and shall not be transferable or assignable and no Grantee shall in any way sell, transfer, charge, mortgage, create lien, encumber or create any interest (legal or beneficial) in favor or any third party over or in relation to any Option or attempt to do so.

(10) *Exercise of Options*

Subject to any condition or restriction in connection with the exercise of the Option which may be imposed by the Board when granting the Option and other provisions of the Share Option Scheme the Option may be exercised by the Grantee (or his or her legal personal representative) at any time during the Option Period, provided that paragraphs (11) or (12) below has been satisfied.

(11) *Rights on ceasing employment or appointment*

In the event that the Grantee ceases to be an Eligible Person due to resignation, retirement, expiry or termination of the Grantee’s employment contract or for any reason (whether on an employment or contractual or honorary basis and whether paid or unpaid in case of an

appointment) other than his or her death or the termination of his or her employment or appointment on one or more of the grounds specified in paragraph (19)(vii) below, the Grantee may exercise the Option up to his or her entitlement as calculated at the date of cessation (to the extent not already exercised) within the period of one (1) month following the date of such cessation or Expiry Date of the Share Option Scheme whichever is earlier. The date of cessation of employment or appointment shall be the last actual date on which the Grantee was physically at work with our Company or the relevant subsidiary of our Company whether salary (if any) is paid in lieu of notice or not.

(12) *Rights on death*

In the event that the Grantee ceases to be an Eligible Person by reason of death and none of the events which would be grounds for termination of his or her employment or appointment under paragraph (19)(vii) or (19)(viii) arises (as the case may be), the legal personal representative(s) of the Grantee shall be entitled within a period of twelve (12) months from the date of death (or such longer period as the Board may determine) to exercise the Option in full (to the extent not already exercised) up to the entitlement of such Grantee as of the date of death.

(13) *Rights on takeover or Share repurchase*

In the event of a general or partial offer by way of takeover or Share repurchase, other than by way of scheme of arrangement as set out in paragraph (14) below, being made to all Shareholders or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or in concert with the offeror (within the meaning of the Takeovers Code), and if such offer becomes or is declared unconditional on the expiry date of the relevant Option, the Grantee (or his or her legal personal representatives) may exercise the Option (to the extent not already exercised) at any time within one (1) month after the offer becomes or is declared unconditional.

(14) *Rights on scheme of arrangement*

In the event of a scheme of arrangement by way of agreement being made to all Shareholders and having been approved by the necessary number of Shareholders at general meeting, the Grantee (or his or her legal personal representatives) may thereafter, but before such time as shall be notified by us, by giving a notice in writing to our Company, to exercise the Option (to the extent not already exercised) as specified in such notice.

(15) *Rights on a compromise or amalgamation*

In the event of a compromise or amalgamation, other than a scheme of arrangement contemplated under the Share Option Scheme, between our Company and its members or creditors being proposed in connection with any scheme for the reconstruction or amalgamation of our Company, our Company shall give notice thereof to all Grantees on the same day as it gives notice of the meeting to its members or creditors to consider such a scheme or arrangement and the Grantee (or his or her personal representative) may, by notice in writing to our Company, accompanied by the remittance for the Subscription Price in respect of the relevant Option (such notice must be received by our Company not later than two (2) business days prior to the proposed meeting), exercise the Option (to the extent not already exercised) either to its full

extent or to the extent specified in the relevant notice. Thereafter, our Company shall, as soon as possible and in any event no later than the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the Grantee, which falls to be issued on such exercise, credited as fully paid, and register the Grantee as holder thereof.

(16) *Rights on winding-up*

In the event a notice is given by our Company to our Shareholders to convene a Shareholders' meeting to consider and, if thought fit, approve a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to all Grantees and any Grantee (or his legal personal representative) may at any time thereafter (but before such time as shall be notified by us) exercise the Option either to its full extent or to the extent notified by us, and we shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed Shareholders' meeting, allot, issue and register in the name of the Grantee such number of Shares to the Grantee which falls to be issued on such exercise.

(17) *Ranking of shares*

The Shares to be allotted and issued upon the exercise of an Option will be subject to the Articles of Association in force at that time including with respect to voting and transfer rights and rights arising on a liquidation of our Company and will rank *pari passu* in all respects with the fully paid Shares in issue as of the date of allotment and thereafter the holders thereof will be entitled to participate in all dividends or other distributions paid or made on or after the date of allotment other than any dividends or other distributions previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment.

(18) *Performance target*

The Grantee will not be required to achieve, meet or exceed any performance targets before that particular Grantee can exercise the Option(s) granted, except those otherwise imposed by the Board pursuant to paragraph (5) above and/or stated in the offer of grant of the Option.

(19) *Lapse of options*

An Option shall lapse automatically (to the extent not already exercised) on the earliest of:-

- (i) the expiry of the Option Period;
- (ii) the expiry of any of the periods referred to in paragraphs (11), (12), (13) and (16) above;
- (iii) subject to a court of competent jurisdiction not making an order prohibiting the offeror from acquiring the remaining Shares in the offer;
- (iv) subject to the scheme of arrangement becoming effective and the expiry period as referred to in paragraph (14);

- (v) the date of commencement of the winding-up of our Company;
- (vi) the date when the proposed compromise or amalgamation becomes effective;
- (vii) the date on which the Grantee ceases to be an Eligible Person by reason of summary dismissal for misconduct or other breach of the terms of his or her employment or other contract constituting him or her as an Eligible Person, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his or her debts or has become insolvent or has made any arrangement or composition with his or her creditors generally or has been convicted of any criminal offence involving his or her integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his or her employment at common law or pursuant to any applicable laws or under the Grantee's service contract with our Company or the relevant subsidiary. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that the employment or other relevant contract of a Grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive and binding on the Grantee;
- (viii) the date on which the Grantee ceases to be an Eligible Person by reason of the termination of his or her relationship (whether by appointment or otherwise) with our Company or its subsidiaries as a consultant or adviser on any one or more of the grounds that he or she has become unable to pay his or her debts or has become otherwise insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or (if so determined by the Board) has committed any act which is prejudicial to or not in the interests of our Company or its subsidiaries. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that the relationship with the Grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive and binding on the Grantee;
- (ix) the date on which the Grantee has committed a breach of paragraph (9) above; or
- (x) the date when cancellation of the Share Options has been consented by the Grantees and approved by the Board as referred in paragraph (21).

(20) *Maximum number of Shares available for subscription*

The maximum aggregate number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other schemes of our Company must not exceed in aggregate 30% of the shares of our Company in issue from time to time (the "Overall Scheme Limit"). No Option may be granted under any schemes of our Company (or its subsidiaries) if such grant will result in the Overall Scheme Limit being exceeded. The total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other schemes must not in aggregate exceed 10% of the shares of our Company (or the subsidiary) as of the Listing Date (the "Scheme Mandate Limit") for this purpose. Any Option lapsed in accordance with the terms of the Share Option Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit.

Subject to the Overall Scheme Limit, our Company may seek approval from its Shareholders in general meeting for “refreshing” the “Scheme Mandate Limit”. However, the total number of Shares which may be issued upon exercise of all Options to be granted under all of the schemes of our Company under the limit as “refreshed” must not exceed 10% of the shares of our Company in issue as of the date of approval by the Shareholders of the renewed limited (the “Refreshed Scheme Mandate Limit”); whilst Options previously granted under any existing schemes (including those outstanding, cancelled or lapsed in accordance with the Share Option Scheme or exercised Options) shall not be counted for the purpose of calculating the Refreshed Scheme Mandate Limit. Our Company must send a circular to its Shareholders containing the information required under the relevant provisions of Chapter 17 of the Listing Rules.

Unless approved by the Shareholders in general meeting at which the relevant Eligible Person and his or her associates abstain from voting in the manner prescribed by the relevant provisions of Chapter 17 of the Listing Rules, the total number of Shares issued and to be issued upon exercise of the Options granted to such Eligible Person (including exercised, cancelled and outstanding Options) in any 12-month period must not exceed 1% of the Shares in issue (the “Individual Limit”) at such time. With respect to any further grant of Options to an Eligible Person exceeding in aggregate the Individual Limit, our Company must send a circular to its Shareholders and the circular must disclose the identity of the Eligible Person, the number and terms of the Options to be granted (and Options previously granted to such Eligible Person), and the information required under the relevant provisions of Chapter 17 of the Listing Rules. The number and terms (including the Subscription Price) of the Options to be granted to such Eligible Person must be fixed before the general meeting at which the same are approved, and the date of the Board meeting for proposing such further grant should be taken as the Date of Grant for the purpose of calculating the Subscription Price.

(21) *Cancellation of Options*

Any cancellation of Options granted but not exercised must be consented by the Grantee and approved by the Board. New Option may be issued to a Grantee in place of his or her cancelled Options only if there are available unissued Options (excluding the cancelled Options) within the Scheme Mandate Limit or the Refreshed Scheme Mandate Limit or such enlarged limit that may be approved by the Shareholders in accordance with paragraph (20) above.

(22) *Reorganisation of capital structure*

In the event of any alteration in the capital structure of our Company whilst any Option remains exercisable, whether by way of capitalisation issue, rights issue, subdivision, consolidation, or reduction of the share capital of our Company or otherwise howsoever in accordance with the legal requirements and requirements of the Stock Exchange excluding any alteration in the capital structure of our Company as a result of an issue of Shares as consideration in respect of a transaction to which our Company is a party, such corresponding alterations (if any) shall be made to:

- (i) the number or nominal amount of Shares subject to the Option so far as unexercised;
- (ii) the Subscription Price; and/or
- (iii) the method of exercise of the Option (if applicable),

as an independent financial adviser or the auditors for the time being of our Company shall at the request of the Board certify in writing to the Directors, either generally or as regards any particular Grantee, to be in their opinions fair and reasonable and that any such alterations shall satisfy the requirements set out in the note to Rule 17.03(13) of the Listing Rules and shall give a Grantee the same proportion of the issued share capital of our Company as that to which the Grantee was previously entitled (as interpreted in accordance with the Supplementary Guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes and/or any future guidance or interpretation of the Listing Rules issued by the Stock Exchange from time to time), provided that no such alterations shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. The capacity of the independent financial adviser or the auditors for the time being of our Company in this paragraph is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on our Company and the Grantees. The costs of the independent financial adviser or the auditors for the time being of our Company shall be borne by our Company.

(23) *Alteration of the Share Option Scheme*

Except with the prior sanction of our Company in general meeting (with the Eligible Persons and their associates abstaining from voting), the Board may not amend:

- (i) any of the provisions of the Share Option Scheme relating to matters contained in Rule 17.03 of the Listing Rules to the advantage of the Eligible Persons or Grantees;
- (ii) any terms and conditions of the Share Option Scheme which are of a material nature or any terms of the Options granted except where such alterations take effect automatically under the existing terms of the Share Option Scheme;
- (iii) any provisions on the authority of the Board in relation to any alteration to the terms of the Share Option Scheme; and/or
- (iv) any provisions of the Share Option Scheme which may result in non-compliance of Chapter 17 of the Listing Rules.

(24) *Termination of the Share Option Scheme*

Our Company, by resolution in general meeting, or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further Options will be offered but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect. Options complying with the provisions of Chapter 17 of the Listing Rules which are granted during the Scheme Period and which remain unexpired immediately prior to the termination of the operation of the Share Option Scheme shall, subject to the terms of the Share Option Scheme, continue to be valid and exercisable thereafter.

As of the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme. An application has been made to the Listing Committee for the granting of the listing of, and permission to deal in, the 100,000,000 Shares which may fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme.

2. Tax and other indemnity and estate duty

(a) *Tax indemnity and other indemnity*

Each of our Controlling Shareholders, pursuant to the deed of indemnity dated 15 June 2012 referred to in the paragraph headed “B. Further Information about Our Business — 1. Summary of material contracts” in this Appendix, has given indemnity in favour of our Group from and against, among other things, any tax liabilities which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received before the Listing Date; and any of non-compliance committed by any member of our Group (including those non-compliance incidents as disclosed in the section headed “Risk Factors” in this prospectus) and/or as a result of and/or in relation to all litigations, arbitration, Claims (including counter-claims), actions, complaints, demands, judgments and/or legal proceedings by or against any of our Group Members before the Listing Date; save:

- (i) to the extent that any provision or allowance or reserve has been made for such taxation in the Accountants’ Report of our Group for three years ended 31 December 2011, as set out on Appendix I to this prospectus;
- (ii) to the extent that such taxation arises or is incurred as a result of any retrospective change in law or the interpretation or practice by the relevant tax authority or retrospective increase in tax rates coming into force on or after the Listing Date;
- (iii) for any liability which would not have arisen but for any act, transaction, omission of or transactions voluntarily effected by any member of our Group (other than pursuant to a legally binding commitment created before the Listing Date) on or after the Listing Date and otherwise than carried out in the ordinary course of business after the Listing Date;
- (iv) for which our Group is primarily liable as a result of transactions entered into in the ordinary course of business after 31 December 2011; and
- (v) to the extent of any provision or reserve made for taxation in the Accountants’ Report set out in Appendix I to this prospectus up to 31 December 2011 which is finally established to be an over-provision or an excessive reserve.

(b) *Estate duty*

The Directors have been advised that no material liability for estate duty is likely to fall on any member of our Group in the Cayman Islands, Hong Kong, the British Virgin Islands and the PRC, being jurisdictions in which the companies comprising our Group are incorporated.

3. Litigation

As of the Latest Practicable Date, neither our Company or any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance is known by the Directors to be pending or threatened by or against any member of our Group.

4. Application for listing of Shares

The Sole Sponsor has made an application for and on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, all our Shares in issue, our Shares to be issued as mentioned in this prospectus and any Shares which may fall to be issued pursuant to the exercise of any Options granted under the Share Option Scheme.

5. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately HK\$32,746.82 and are payable by our Company.

6. Promoter

Our Company has no promoter for the purposes of the Listing Rules.

7. Qualifications of experts

The followings are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

| Name | Qualifications |
|--|---|
| Guotai Junan Capital Limited | a licensed corporation to engage in type 6 (advising on corporate finance) regulated activities under the SFO |
| KPMG | Certified Public Accountants |
| Hills & Co. | PRC legal advisers |
| Conyers Dill & Pearman (Cayman) Limited | Cayman Islands attorneys-at-law |
| Asset Appraisal Limited | Property valuer |

8. Consent of experts

Each of the experts whose names are set out in paragraph 7 above has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or the references to its name included herein in the form and context in which they are respectively included.

9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance insofar as applicable.

10. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no founders or management or deferred shares of our Company or any of its subsidiaries have been issued or agreed to be issued;
 - (iv) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of its subsidiaries; and
 - (v) no commission has been paid or payable, except for the commission payable to the Underwriters, for subscription of, agreeing to subscribe or procuring subscription of any shares in our Company or any of its subsidiaries.
- (b) The Directors confirm that:
 - (i) there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2011 (being the date to which the latest audited financial statements of our Group were prepared); and
 - (ii) there has not been any interruption in the business of our Group which may have or have had a material adverse effect on the financial position of our Group in the 12 months preceding the date of this prospectus.
- (c) The register of members of our Company will be maintained in the Cayman Islands by Codan Trust Company (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Unless the Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by our Company's Share Registrar in Hong Kong and may not be lodged in the Cayman Islands.
- (d) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (e) All necessary arrangements have been made to enable our Shares to be admitted into CCASS for clearing and settlement.
- (f) The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

APPENDIX VII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of each of the Application Forms;
- (b) the written consents referred to in the paragraph headed “D. Other Information — 8. Consent of experts” in Appendix VI to this prospectus; and
- (c) a copy of each of the material contracts referred to in the paragraph headed “B. Further Information about Our Business — 1. Summary of material contracts” in Appendix VI to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Li & Partners at 22nd Floor, World-Wide House, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association;
- (b) the Accountants’ Report prepared by KPMG, the text of which is set out in Appendix I to this prospectus;
- (c) the audited financial statements of Zhangping Kimura and Merry Garden Wooden Structure, the subsidiaries of our Group for each of the three financial years ended 31 December 2011;
- (d) the letter prepared by KPMG relating to the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;
- (e) the letters relating to the profit forecast, the texts of which are set out in Appendix III to this prospectus;
- (f) the letter, summary of valuation and valuation certificate relating to the property interests of our Group prepared by Asset Appraisal Limited, the texts of which are set out in Appendix IV to this prospectus;
- (g) the letter prepared by Conyers Dill & Pearman (Cayman) Limited summarising certain aspects of the Cayman Islands company law referred to in Appendix V to this prospectus;
- (h) the Cayman Companies Law;
- (i) the material contracts referred to in the paragraph headed “B. Further Information about Our Business — 1. Summary of material contracts” in Appendix VI to this prospectus;

**APPENDIX VII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
IN HONG KONG AND AVAILABLE FOR INSPECTION**

- (j) the written consents referred to in the paragraph headed “D. Other Information — 8. Consent of experts” in Appendix VI to this prospectus;
- (k) the service contracts and appointment letters referred to in the paragraph headed “C. Disclosure of Interests — 4. Particulars of service contracts” in Appendix VI to this prospectus;
- (l) the PRC legal opinion issued by Hills & Co; and
- (m) the rules of the Share Option Scheme.



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