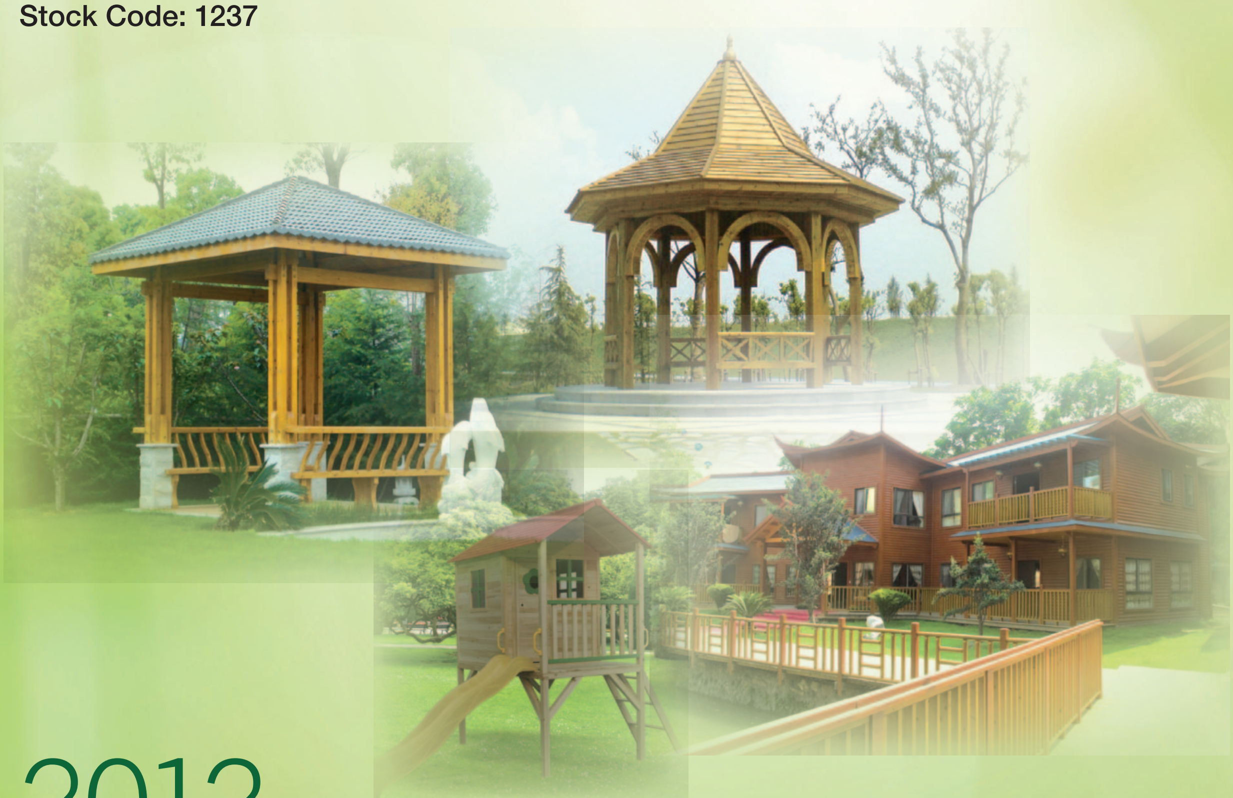
MERRY GARDEN HOLDINGS LIMITED
美麗家園控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1237



2012
Annual Report

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wu Zheyan ("Mr. Wu")
Mr. Wu Qingshan ("Mr. QS Wu")
Ms. Xie Qingmei ("Ms. Xie")

Non-executive Director

Mr. Wu Dongping

Independent non-executive Directors

Mr. Lam Hin Chi
Mr. Jin Zhongwei
Mr. Su Wenqiang

AUDIT COMMITTEE

Mr. Lam Hin Chi *(chairman)*
Mr. Su Wenqiang
Mr. Jin Zhongwei

REMUNERATION COMMITTEE

Mr. Jin Zhongwei *(chairman)*
Mr. Su Wenqiang
Mr. Lam Hin Chi

NOMINATION COMMITTEE

Mr. Jin Zhongwei *(chairman)*
Mr. Su Wenqiang
Mr. Lam Hin Chi

COMPANY SECRETARY

Miss Wong On Lai, *CPA*

AUTHORISED REPRESENTATIVES

Miss Wong On Lai
Mr. Wu Zheyan

AUDITORS

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

PRINCIPAL BANKERS

Agricultural Bank of China, Zhangping Branch
China Construction Bank, Zhangping Branch
Bank of China, Zhangping Branch

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2702
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

HEAD OFFICE IN THE PRC

Fushan Industrial District
Zhangping, Fujian, the PRC

CORPORATE INFORMATION *(Continued)*

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

COMPLIANCE ADVISOR

Guotai Junan Capital Limited

WEBSITE

www.merrygardenholdings.com

STOCK CODE

1237

LEGAL ADVISOR

Eversheds
21st Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present you the first annual report of Merry Garden Holdings Limited (the "Company") and its subsidiaries (collectively "the Group") since our listing on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on 6 July 2012. The listing marked a significant milestone in the Company's development. On behalf of the board ("the Board") of directors of the Company (the "Directors"), I am pleased to announce that the Group has achieved encouraging results in 2012.

Our Group is a wooden leisure products enterprise in the People's Republic of China ("PRC") covering the research and development ("R&D"), design, production and sale of leisure household products and timber villas, sheds and their related parts and structures. We have launched a series of wooden leisure products in order to espouse a leisure and natural lifestyle. Our own-brand of Merry Garden was recognised as "Well-known Trademark" by the State Administration for Industry & Commerce of the PRC in 2012. We offer a wide range of products and they are broadly divided into two main categories: (1) leisure household products: this category is subdivided into four sub-categories: (i) recreational products, such as play swings and play houses for children; (ii) landscape garden products, such as wooden terraces and fences; (iii) outdoor and indoor furniture products; and (iv) pet-home products; and (2) timber villas, sheds and their related parts and structures.

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

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

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

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

CHAIRMAN'S STATEMENT *(Continued)*

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

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

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

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

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

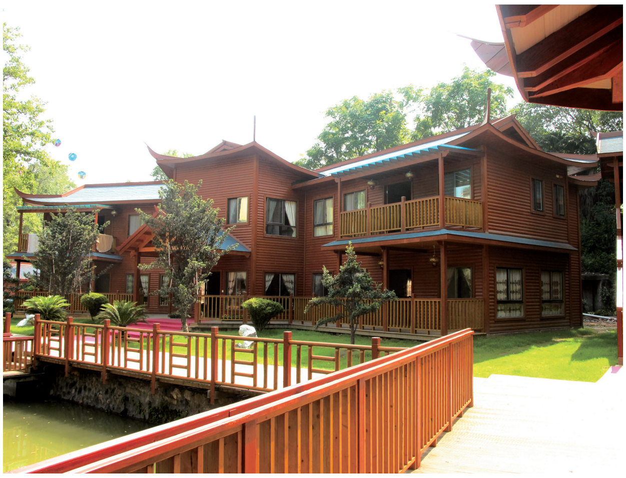
With our new production lines commencing production in early April 2013 and unification of our production facilities, the management believes that the Group is well prepared to capture the opportunity of recovery and growth, as well as to achieve the sustainable development in our business.

On behalf of the Board of Directors, I hereby express our sincere gratitude to the outstanding contributions and efforts made by the management and all employees, as well as the strong support from all our customers, business partners and shareholders.

Wu Zheyan
Chairman and Chief Executive Officer

Hong Kong, 22 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS



FINANCIAL ANALYSIS

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

Revenue analysis by product type is as follows:

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

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

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

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

GROSS PROFIT AND GROSS PROFIT MARGIN

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

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

OTHER REVENUE

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

OTHER NET LOSS

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

SELLING AND DISTRIBUTION EXPENSES

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

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

ADMINISTRATIVE EXPENSES

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

EFFECTIVE TAX RATE

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

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

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

LIQUIDITY AND CAPITAL RESOURCES

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

The Group principally meets its working capital and other liquidity requirements through a combination of operating cash flows, capital contributions and bank borrowings. As at 31 December 2012, the Group's bank borrowings amounted to RMB125.7 million (2011: RMB85.8 million) and these bank borrowings were denominated in RMB, Euro and US$, among which RMB86.1 million (2011: RMB12.3 million) bears fixed interest rates. Details are set out in note 27(c)(i) to the financial statements.

	2012	*2011*
Current ratio(1)	**223.4%**	131.7%
Gearing Ratio(2)	**15.4%**	52.9%

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

(2) Gearing ratio is calculated as net debt (i.e. total bank loans less cash and cash equivalents) divided by total equity.

Current ratio improved from 131.7% as at 31 December 2011 to 223.4% as at 31 December 2012. Gearing ratio also improved from 52.9% as at 31 December 2011 to 15.4% as at 31 December 2012. The improvements for both ratios were attributable to our net working capital inflow from our operating profits and the proceeds from the Company's global offering.

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

FOREIGN EXCHANGE RISK

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

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

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

PLEDGE OF ASSETS

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

WORKING CAPITAL MANAGEMENT

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

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

The Group had no material contingent liabilities as at 31 December 2012.

USE OF PROCEEDS

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

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

EMPLOYEES AND EMOLUMENTS

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

MANAGEMENT DISCUSSION AND ANALYSIS
(Continued)

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

SUBSEQUENT EVENT

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

CORPORATE GOVERNANCE REPORT

We are committed to achieving and maintaining high standards of corporate governance, in compliance with the principles set out in the Code on Corporate Governance Practices (the "Corporate Governance Code") contained in Appendix 14 to the Rules ("Listing Rules") Governing the Listing of Securities on the Stock Exchange from time to time.

Pursuant to a resolution passed by the Board on 15 June 2012, the Company has adopted all the requirements of the code provisions of the Corporate Governance Code. During the period from 6 July 2012, being the first day of the listing of the Company's shares on the Stock Exchange, to 31 December 2012 ("Period"), the Company has complied with all the code provisions of the Corporate Governance Code except for the deviation disclosed under the section headed "The Chairman and the Chief Executive" in this report.

THE BOARD

The Board oversees the management of the business and affairs of the Company. The Directors are accountable for making decisions objectively in the best interest of the Shareholders as a whole.

The Board is responsible for making decisions on all major aspects of the Company's affairs, including the approval and monitoring of key policy matters, overall strategies, business plans and annual budgets, internal control and risk management systems, material transactions, major capital expenditure, appointment of Directors and other significant financial and operational matters.

The Board may delegate aspects of its management and administration functions to the management. In particular, the day-to-day management of the Company is delegated to the chief executive officer of the Group, Mr. Wu Zheyan, and his management team.

The Company has throughout the Period met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, accounting or related financial management expertise. At all times during the Period, the independent non-executive Directors represent at least one-third of the Board.

Throughout the Period, the composition of the Board was as follows:

Executive Directors:

Mr. Wu Zheyan
Mr. Wu Qingshan
Ms. Xie Qingmei

Non-executive Director:

Mr. Wu Dongping

Independent non-executive Directors:

Mr. Lam Hin Chi
Mr. Jin Zhongwei
Mr. Su Wenqiang

CORPORATE GOVERNANCE REPORT *(Continued)*

A description of the Directors is set out in the section headed "Board of Directors and senior management" in this annual report.

The Board is expected to meet regularly and at least four times a year. The Directors have full access to information on the Group and independent professional advice at all times whenever deemed necessary by the Directors.

With respect to regular meetings of the Board, the Directors will be given written notice of the meeting at least 14 days in advance and an agenda with supporting Board papers no less than three days prior to the meeting. For other meetings, the Directors are given as much notice as is reasonable and practicable in the circumstances.

The Board held 2 meetings during the Period and the attendance of the Directors are set out on page 18.

CORPORATE GOVERNANCE

The Board has carried out its duties and responsibilities as set out in code provision D.3 in the Corporate Governance Code, including the development of policies and practices on corporate governance, monitoring the training and continuous professional development of Directors and senior management, reviewing the compliance with the Corporate Governance Code, disclosure in this report and legal and regulatory requirements of the Group.

THE CHAIRMAN AND THE CHIEF EXECUTIVE

The chairman of the Board and the chief executive is Mr. Wu Zheyan who was appointed as executive Director on 17 October 2011. The Company has deviated from the code provision A.2.1 of the Corporate Governance Code. The Board believes that it is necessary to vest the roles of chairman and chief executive in the same person due to its unique role. Mr. Wu Zheyan's experience and established market reputation in the industry, and the importance of Mr. Wu Zheyan in the strategic development of the Company. The dual role arrangement provides strong and consistent market leadership and is critical for efficient business planning and decision making of the Company. As all major decisions are made in consultation with the members of the Board, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board.

Mr. Wu Zheyan takes the lead in formulating overall strategies and policies of the Company; ensures the effective performance by the Board of its functions, including compliance with good corporate governance practices; and encourages and facilitates active contribution of Directors in board activities and constructive relations between executive and non-executive Directors. He also ensures effective communication with shareholders of the Company and receipt by the Directors of adequate and complete information.

Mr. Wu Zheyan, supported by other Board members and the senior management, is also responsible for managing the day-to-day business of the Company. He is also accountable to the Board for the implementation of the Company's overall strategies, and coordination of overall business operations.

DIRECTORS AND DIRECTORS' INDEPENDENCE

As at the date of this report, the Board consists of four non-executive Directors and three executive Directors. Three of the non-executive Directors are independent. Further details of the composition of the Board are disclosed in the section headed "The Board" of this report.

CORPORATE GOVERNANCE REPORT *(Continued)*

NON-EXECUTIVE DIRECTOR

The non-executive Director is expected to participate in the activities of the Board, particularly in the establishment of a selection process to ensure a mix of competent directors and officers; adoption of a system of internal checks and balances; scrutiny of the Company's performance in achieving agreed corporate goals and objectives; and ensuring that the exercise of Board authority is within the powers conferred to the Board under its articles of association ("Articles") and applicable laws, rules and regulations.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, finance and business. Their skills, expertise and number in the Board ensure that strong independent views and judgement are brought in the Board's deliberations and that such views and judgement carry weight in the board's decision-making process. Their presence and participation also enable the Board to maintain high standards of compliance in financial and other mandatory reporting requirements, and provide adequate checks and balances to safeguard the interests of shareholders of the Company and the Company.

Each independent non-executive Director gives the Company an annual confirmation of his independence. The Company considers such Directors to be independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Each Director, upon reasonable request, is given access to independent professional advice in circumstances he may deem appropriate and necessary for the discharge of his duties to the Company, at the expense of the Company.

APPOINTMENTS, RE-ELECTION AND ROTATION OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 15 June 2012, which may be terminated by not less than three months' notice in writing served by either party on the other. Each of the non-executive Director and the independent non-executive Directors have been appointed for a term of three years commencing from 15 June 2012. None of the Directors has entered into a service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

Pursuant to the Articles, 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 by the Board to fill a casual vacancy shall hold office until the first general meeting after his appointment and be subject to re-election at such meeting and any Director appointed by the Board 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.

According to the Articles and in the opinion of the Board, all the Directors, namely Mr. Wu Zheyan, Mr. Wu Qingshan, Ms. Xie Qingmei, Mr. Wu Dongping, Mr. Lam Hin Chi, Mr. Jin Zhongwei and Mr. Su Wenqiang will retire at the forthcoming annual general meeting. All of the above retiring Directors, being eligible, will offer themselves for re-election at the same meeting.

Where vacancies arise at the Board, candidates will be proposed and put forward to the Board by the Nomination Committee (as defined below) as set out below under the section headed "Nomination Committee".

CORPORATE GOVERNANCE REPORT *(Continued)*

TRAINING, INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

Each newly appointed Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

According to the code provision A.6.5 of the Corporate Governance Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Company should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of the directors.

The Directors confirm that they have complied with the relevant code provision. The Company had received from each of the Directors the record of training the Directors received.

SECURITIES TRANSACTIONS

Pursuant to a resolution passed by the Board on 15 June 2012, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct for dealing in securities of the Company by the Directors.

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

BOARD COMMITTEES

The Company established a remuneration committee (the "Remuneration Committee"), an audit committee (the "Audit Committee") and a nomination committee (the "Nomination Committee") on 15 June 2012.

Remuneration Committee

The Remuneration Committee comprises all independent non-executive Directors, namely, Mr. Lam Hin Chi, Mr. Jin Zhongwei and Mr. Su Wenqiang. Mr. Jin Zhongwei is the chairman of the Remuneration Committee.

The major duties of the Remuneration Committee are as follows:

(a) to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) to determine, with delegated responsibility, the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(c) to make recommendations to the Board of the remuneration of non-executive Directors;

CORPORATE GOVERNANCE REPORT *(Continued)*

(d) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

(e) to review and approve management's remuneration proposals by reference to the Board's corporate goals and objectives;

(f) to review and approve compensation payable to the executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(g) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

(h) to ensure that no Director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee's specific terms of reference are available on request to any shareholder of the Company and are posted on the Stock Exchange's website and the Company's website, www.merrygardenholdings.com.

No meeting of the Remuneration Committee was held during the Period. From 2013, the Remuneration Committee will meet at least once a year.

Audit Committee

The Audit Committee comprises all independent non-executive Directors, namely, Mr. Lam Hin Chi, Mr. Jin Zhongwei and Mr. Su Wenqiang. Mr. Lam Hin Chi is the chairman of the Audit Committee.

A meeting of the Audit Committee was held during the year to consider and review the interim financial statements of the Group for the six months ended 30 June 2012 and the attendance of the Audit Committee members of such meeting is set out on page 18. From 2013, the Audit Committee will meet at least twice a year.

A recent meeting of the Audit Committee was held on 22 March 2013 to consider and review the financial statements of the Group for the year ended 31 December 2012 and internal control related matters. All members of the Audit Committee attended that meeting.

Under its terms of reference, the Audit Committee shall assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems and internal and external audit functions. The Audit Committee is further authorised by the Board to investigate any activity within its terms of reference, and is tasked with recommending to the Board appropriate actions emanating from such investigations. The Audit Committee has unrestricted access to personnel, records, internal and external auditors, risk assessment and assurance and senior management, as may be appropriate in the discharge of its functions.

CORPORATE GOVERNANCE REPORT *(Continued)*

In the year ended 31 December 2012, the Audit Committee discharged its responsibilities by:

(1) making recommendations to the Board on the reappointment of the external auditor and approval of the remuneration and terms of engagement of the external auditor;

(2) monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard, and discussing with the external auditor the nature and scope of the audit and reporting obligations;

(3) implementing the Company's policy on the engagement of an external auditor to supply non-audit services;

(4) reviewing, and monitoring the integrity of, the financial statements of the Company and the Company's interim report to ensure that the information presents a true and balanced assessment of the Company's financial position;

(5) reviewing the Company's financial controls, internal control and risk management systems to ensure that management has discharged its duty to have an effective internal control system;

(6) reviewing the Company's financial and accounting policies and practices;

(7) reviewing the external auditor's management letter, material queries raised by the external auditor to the management, if any, in respect of the accounting records, financial accounts or systems of control and the management's response to such queries; and

(8) reporting to the Board on the matters set out in the Corporate Governance Code on the Audit Committee.

The Audit Committee is authorised by the Board to obtain external legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary in the performance of its functions. The Audit Committee is provided with sufficient resources by the Company to discharge its duties. The Audit Committee's specific terms of reference are available on request to any shareholder of the Company and are posted on the Stock Exchange's website and the Company's website, www.merrygardenholdings.com.

Nomination Committee

The Nomination Committee comprises all independent non-executive Directors, namely, Mr. Lam Hin Chi, Mr. Jin Zhongwei and Mr. Su Wenqiang. Mr. Jin Zhongwei is the chairman of the Nomination Committee.

CORPORATE GOVERNANCE REPORT *(Continued)*

The major duties of the Nomination Committee are as follows:

(a) to review the structure, size and composition of the Board (including the skills, knowledge and experience) at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) to assess the independence of independent non-executive Directors; and

(d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive officer of the Group.

Where vacancy on the Board exists, the Nomination Committee will carry out a selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations, and select or make recommendations to the Board on the selection of candidates for directorship.

The Nomination Committee's specific terms of reference are available on request to any shareholder of the Company and are posted on the Stock Exchange's website and the Company's website, www.merrygardenholdings.com.

No meeting of the Nomination Committee was held during the Period. From 2013, the Nomination Committee will meet at least once a year.

MEETING ATTENDANCE

The Directors' attendance in the Board meeting(s), the Audit Committee meeting(s), the Remuneration Committee meeting(s), the Nomination Committee meeting(s) and the Shareholders' meeting(s) during the Period are set out below:

	Attendance				
	Board meeting(s)	Audit Committee meeting(s)	Remuneration Committee meeting(s)	Nomination Committee meeting(s)	Shareholders' meeting(s)
Executive Directors					
Mr. Wu Zheyan *(Chairman)*	2/2	–	–	–	0/0
Mr. Wu Qingshan	2/2	–	–	–	0/0
Ms. Xie Qingmei	2/2	–	–	–	0/0
Non-executive Director					
Mr. Wu Dongping	2/2	–	–	–	0/0
Independent non-executive Directors					
Mr. Lam Hin Chi	2/2	1/1	0/0	0/0	0/0
Mr. Jin Zhongwei	2/2	1/1	0/0	0/0	0/0
Mr. Su Wenqiang	2/2	1/1	0/0	0/0	0/0

CORPORATE GOVERNANCE REPORT *(Continued)*

ACCOUNTABILITY AND AUDIT

Financial reporting

The Directors acknowledge their responsibility for the preparation of the financial statements of the Company to ensure that these financial statements give a true and fair presentation in accordance with the International Financial Reporting Standards.

The statement by the auditor about their reporting responsibilities is set out in the independent auditor's report on pages 31 to 32.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

INDEPENDENT AUDITOR

The Audit Committee reviews and monitors the independent auditor's independence, objectivity and effectiveness of the audit process. It receives each year letter from the independent auditor confirming their independence and objectivity and holds meetings with representatives of the independent auditor to consider the scope of its audit, approve its fees, and the scope and appropriateness of non-audit services, if any, to be provided by it. The Audit Committee also makes recommendations to the Board on the appointment and retention of the independent auditor.

The remuneration payable to the independent auditor of the Company in respect of the audit services related to the initial public offering of the shares of the Company and audit services for the year ended 31 December 2012 amounted to approximately RMB4.0 million and RMB1.3 million, respectively. There was no remuneration payable to the independent auditor of the Company in respect of non-audit services.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for the Group's system of internal control and assessment and management of risks. In meeting its responsibility, the Board has put in place policies and procedures which provide a framework for the identification and management of risks.

The Directors have reviewed the effectiveness of the Group's internal control system, which covers all material controls, including financial, operational and compliance controls and risk management functions.

In the meeting held on 22 March 2013, the Audit Committee has also reviewed and considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. The findings of the Audit Committee have been reported to the Board.

COMPANY SECRETARY

The company secretary of the Company, Miss Wong On Lai, is a full-time employee of the Group. Please refer to her biographical details as set out on page 30 of this annual report.

CORPORATE GOVERNANCE REPORT *(Continued)*

INVESTOR RELATIONS

There are no significant changes in the Articles and the memorandum of association of the Company during the Period.

Pursuant to article 58 of the Articles, members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

SENDING ENQUIRIES TO THE BOARD AND PROCEDURES FOR PUTTING FORWARD PROPOSALS AT SHAREHOLDERS' MEETINGS

Shareholders or investors can contact the Company in the following ways to make enquiry or to provide suggestions:

Contact Person:	Miss Wong On Lai, company secretary
Tel:	(852) 3904 1868
Postal Address:	Rm 2702, China Resources Building, 26 Harbour Road, Wan Chai, Hong Kong

To put forward proposals at a general meeting, the Shareholders should submit a written notice of those proposals with detailed contact information to the company secretary at the Company's principal place of business stated above.

DIRECTORS' REPORT

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of Company is investment holding and the principal activities of its subsidiaries are set out in note 15 to the financial statements.

RESULTS & DIVIDENDS

Results of the Group for the year ended 31 December 2012 are set out in the consolidated income statement on page 33. Other movements in reserves are set out in the consolidated statement of changes in equity on page 38.

On 22 March 2013, the Board recommends 1.30 HK cents (equivalent to approximately RMB1.05 cents) per Share as a final dividend for the year ended 31 December 2012.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 96 of this annual report.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year ended 31 December 2012 are set out in note 24(c) to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company's aggregate amounts of reserves available for distribution were approximately RMB124,311,000, of which approximately RMB10,540,000 has been proposed as a final dividend for the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or applicable laws of the Cayman Islands where the Company was incorporated.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment are set out in note 12 to the financial statements.

BANK BORROWINGS AND INTEREST

Details of the Group's bank borrowings are set out in note 22 to the financial statements. Bank borrowings repayable within one year or on demand are classified as current liabilities in the financial statements.

DIRECTORS' REPORT *(Continued)*

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2012, the Group's five largest customers accounted for approximately 33.6% of the Group's total revenue and the Group's largest customer for the year accounted for approximately 9.2% of the Group's total revenue. The Group's five largest suppliers accounted for approximately 45.4% of the Group's total purchases, while the largest supplier for the year accounted for approximately 12.8% of the Group's total purchases.

To the knowledge of the Directors, none of the Directors or their respective associates or any of the Shareholders of the Company who owns more than 5% of the Company's issued share capital has any interest in any of the Group's five largest customers or suppliers.

EMPLOYEES

As at 31 December 2012, the Group had 588 employees in total. The table below shows a breakdown of the Group's employees by their responsibilities:

Management, Finance, Administration	72
Sales & Marketing	29
Design	19
Research & Development	37
Procurement	12
Production	391
Quality Control	28
Total	588

Total staff costs for the year under review amounted to approximately RMB25.4 million and the details are set out in note 6(b) to the financial statements. Remuneration for employees is based upon their qualification, experience, job nature, performance and market condition.

The Group has established various welfare plans including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees who are employed by the Group pursuant to the rules and regulations of the PRC and the existing policy requirements of the local government. The Group also maintains the employee short-term health insurance and unforeseen injury insurance. In addition, the Group provides staff quarters to its employees.

Directors and qualified employees of the Company may be granted share options to subscribe for shares in the Company in accordance with the terms and conditions of the Share Option Scheme (as defined below).

DIRECTORS' REPORT *(Continued)*

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2012, the interests and short positions of the Directors or the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of part XV of the SFO) which would have to be notified to the Company and the 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 the Company and the 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 Zheyan	Interest in controlled corporation/ Long position (Note)	467,621,200	46.76%
Mr. Wu Qingshan	Beneficial owner/Long position	27,502,800	2.75%
Ms. Xie Qingmei	Beneficial owner/Long position	6,888,000	0.69%

Note: Mr. Wu Zheyan is deemed to be interested in the Shares held by Green Seas Capital Limited, his wholly-owned company.

Save as disclosed above, none of the Directors and chief executive of the Company had interests or in short positions in the shares, underlying shares of equity derivatives or debentures of the Company or any associated corporation defined under the SFO which would have to be notified to the Company and the 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 the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 to the Listing Rules as at 31 December 2012.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, its holding company, or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, existed at the end of the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors or their respective associates has any competing interests which need to be disclosed pursuant to Rule 8.10 of the Listing Rules.

DIRECTORS' REPORT *(Continued)*

INTERESTS AND SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2012, the following persons (other than a director or chief executive of the Company), who had interests or short positions in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows :

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding interest (%)
Green Seas Capital Limited	Beneficial owner/Long position (Note 1)	467,621,200	46.76%
Hong Kong Investments Group Limited	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 Limited	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:

1. The entire issued share capital of Green Seas Capital Limited is legally and beneficially owned by Mr. Wu Zheyan, who is deemed to be interested in the Shares held by Green Seas Capital Limited.

2. The entire issued share capital of Hong Kong Investments Group Limited is legally and beneficially owned by Mr. Cheung Chi Mang, who is deemed to be interested in the Shares held by Hong Kong Investments Group Limited.

3. The entire issued share capital of Haili International Limited is legally and beneficially owned by Mr. Ke Mingcai, who is deemed to be interested in the Shares held by Haili International Limited.

Save as disclosed above, the Directors are not aware of any person, other than the Directors whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, who had an interest or short positions in the Shares or underlying Shares that were required to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO, or recorded pursuant to Section 336 of Part XV of the SFO as of 31 December 2012.

DIRECTORS' REPORT *(Continued)*

SHARE OPTION SCHEME

Pursuant to a resolution passed by all the shareholders on 15 June 2012, the Company has conditionally adopted the share option scheme (the "Share Option Scheme") for the purpose of recognising and acknowledging the contributions the eligible participants had or may have made to the Group. The Board may, at its discretion, grant options pursuant to the Share Option Scheme to the Directors (including executive Directors, non-executive Directors and independent non-executive Directors), the directors of the Company's subsidiaries and employees of the Group and any other persons (including consultants or advisers) whom the Board considers, in its absolute discretion, have contributed or will contribute to the Group. The Directors were authorised to grant options to subscribe for Shares of the Company and to allot, issue and deal with the Shares pursuant to the exercise of options granted under the Share Option Scheme and to take all such steps as may be necessary and/or desirable to implement and give effect to the Share Option Scheme. The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the Global Offering (as defined in the Company's prospectus dated 25 June 2012), being 100,000,000 Shares, excluding any Shares that may be issued under the options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company), unless otherwise approved by the shareholders of the Company in general meeting and/or such other requirements prescribed under the Listing Rules from time to time.

Unless otherwise approved by the shareholders of the Company in general meeting, the number of Shares that may be granted to an eligible participant under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) shall not exceed 1% of the Shares in issue of the Company within any 12-month period. Any grant of options to a Director, chief executive or substantial shareholder (as defined in the Listing Rules) of the Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by our independent non-executive Directors. Unless otherwise approved by the Shareholders of the Company in general meeting and/or such other requirements prescribed under the Listing Rules, the number of Shares that may be granted to a substantial shareholder or any independent non-executive Director or their respective associates under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) shall not exceed 0.1% of the Shares in issue, having an aggregate value in excess of HK$5 million, within any 12-month period.

There is no minimum period for which an option must be held before it can be exercised, and the period during which an option may be exercised will be determined by the Board in its absolute discretion, however, no options shall be exercised 10 years after they have been granted. The subscription price of a Share in respect of a particular option shall be not less than the highest of (a) the official closing price of the Shares on the daily quotation sheet of the Stock Exchange; (b) the average official closing price of the Shares on the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) the nominal value of a Share. The Share Option Scheme shall take effect from the date it is adopted and shall remain effective within a period of 10 years from that date.

From the date that the Share Option Scheme became effective and unconditional and up to the date of this annual report, no share options were granted under the Share Option Scheme.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

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

DIRECTORS' REPORT *(Continued)*

PUBLIC FLOAT

Rule 8.08(1)(a) of the Listing Rules requires that at least 25% of an issuer's total issued share capital must at all times be held by the public. Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficiency of public float at all times during the Period.

CONTINUING CONNECTED TRANSACTIONS

The following transactions of the Group constituted non-exempt continuing connected transactions ("Continuing Connected Transactions") for the Company during the Period under the Listing Rules:

Sales to Zhangping Jiupengxi Ecological Tourism Development Company Limited ("Jiupengxi")

Since December 2010, the Group 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, we have 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 we 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.

It has been expected that the aggregate sales by us under the Jiupengxi Agreement for the year ended 31 December 2012 and the two years ending 31 December 2013 and 2014 will not exceed the annual caps of RMB8 million, RMB10 million and RMB8 million respectively.

Our aggregate sales to Jiupengxi were RMB7,985,000 for the year ended 31 December 2012. For details, please refer to note 26 to the financial statements.

The independent non-executive Directors have reviewed these connected transactions and confirmed that such transactions were:

— entered into in the ordinary and usual course of business of the Group;

— conducted either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from independent third parties; and

— in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company, KPMG, have confirmed in a letter to the Board that nothing has come to their attention that caused them to believe that the Continuing Connected Transactions in the year ended 31 December 2012 (i) had not been approved by the Board of the Company, (ii) were not entered into, in all material respects, in accordance with the pricing policies of the Group, (iii) were not entered into, in material respects, in accordance with the relevant agreements governing such transactions, and (iv) had exceeded the cap disclosed in the Company's prospectus dated 25 June 2012.

DIRECTORS' REPORT *(Continued)*

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions undertaken in the normal course of business are provided under note 26 to the financial statements, and none of which constitutes a discloseable connected transaction as defined under the Listing Rules.

DEED OF NON-COMPETITION

The Company entered into a deed of non-competition (the "Deed of Non-Competition") with Mr. Wu Zheyan and Green Seas Capital Limited (collectively referred to as the "Controlling Shareholders") on 15 June 2012 so as to better safeguard the Group from any potential competition and to formalise the principles for the management of potential conflicts between them and to enhance our corporate governance in connection with the listing of the Shares on the Stock Exchange.

The independent non-executive Directors have reviewed compliance by the Controlling Shareholders and confirm that based on confirmations and information provided by each of the Controlling Shareholders, they were in compliance with the Deed of Non-Competition during the Period.

The independent non-executive Directors were not required to review any matter in relation to compliance and enforcement of the Deed of Non-Competition during the Period.

AUDITOR

KPMG will retire and, being eligible, offer themselves for re-appointment. A resolution for the reappointment of KPMG as auditor of the Company is to be proposed at the forthcoming annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

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

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

On behalf of the Board
Wu Zheyan
Chairman and Chief Executive Officer
Hong Kong, 22 March 2013

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographies of each member of the senior management team are set out below:

EXECUTIVE DIRECTORS

Wu Zheyan (吳哲彥) (Mr. Wu), aged 33, is an executive Director, chairman and chief executive officer of the Company. Mr. Wu was appointed as a Director on 17 October 2011. He joined Fujian Zhangping Kimura Forestry Products Co. Ltd ("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.

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.

Wu Qingshan (吳青山) (Mr. QS Wu), aged 44, was appointed as a Director on 15 June 2012. Mr. QS Wu is currently in charge of marketing and production management for the Group. Mr. QS Wu has over 22 years of experience in timber products enterprise management. Before joining the 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 the Group in 1995, Mr. QS Wu has been a director and a deputy general manager of Zhangping Kimura.

Mr. QS Wu is an uncle of Mr. Wu and a brother-in-law of Mr. Wu Dongping.

Xie Qingmei (謝清美) (Ms. Xie), aged 45, is an executive Director and a deputy general manager of the Company. Ms. Xie is primarily responsible for procurement matters in respect of the Group. She has over 10 years of experience in corporate management and procurement. Ms. Xie joined the 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.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

NON-EXECUTIVE DIRECTOR

Wu Dongping (吳冬平), aged 58, is a non-executive Director of the 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 the 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 the brother-in-law of Mr. QS Wu.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Lam Hin Chi (藍顯賜), aged 48, was appointed as an independent non-executive Director of the 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 24 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.

Professor Jin Zhongwei (金重為), aged 75, was appointed as an independent non-executive Director of the 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.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

Professor Su Wenqiang (蘇文強), aged 57, was appointed as an independent non-executive Director of the Company on 15 June 2012. Professor Su has about 30 years of experience in forestry and timber products research area. 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). 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.

SENIOR MANAGEMENT

Chen Tianfu (陳天福), aged 47, 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 30, 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.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the Shareholders of
Merry Garden Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Merry Garden Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 33 to 95, which comprise the consolidated and company balance sheets as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT *(Continued)*

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

22 March 2013

CONSOLIDATED INCOME STATEMENT

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

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

The notes on pages 40 to 95 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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

The notes on pages 40 to 95 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 31 December 2012
(Expressed in Renminbi)

	Note	**2012 RMB'000**	2011 RMB'000
Non-current assets			
Property, plant and equipment	12	**127,134**	72,011
Lease prepayments	13	**64,179**	37,935
Non-current prepayments for acquisitions of property, plant and equipment		**1,090**	8,947
Other financial assets	14	**2,495**	2,495
Deferred tax assets	16(b)	**6,172**	4,815
		201,070	126,203
Current assets			
Inventories	17	**72,252**	51,672
Current portion of lease prepayments	13	**1,368**	812
Trade and other receivables	18	**181,891**	94,676
Pledged deposits	19	**9,151**	847
Cash and cash equivalents	20(a)	**70,041**	8,202
		334,703	156,209
Current liabilities			
Trade and other payables	21	**12,810**	16,133
Bank loans	22	**125,682**	85,797
Current portion of deferred income	23	**1,295**	920
Current taxation	16(a)	**10,015**	15,799
		149,802	118,649
Net current assets		**184,901**	37,560

CONSOLIDATED BALANCE SHEET *(Continued)*

at 31 December 2012
(Expressed in Renminbi)

	Note	**2012 RMB'000**	2011 RMB'000
Total assets less current liabilities		**385,971**	163,763
Non-current liabilities			
Non-current portion of deferred income	23	**22,670**	17,169
Deferred tax liabilities	16(b)	**1,060**	–
		23,730	17,169
NET ASSETS		**362,241**	146,594
CAPITAL AND RESERVES			
Capital	24	**8,135**	8
Reserves	24	**354,106**	146,586
TOTAL EQUITY		**362,241**	146,594

Approved and authorised for issue by the board of directors on 22 March 2013

Wu Zheyan
Chairman

Wu Qingshan
Director

The notes on pages 40 to 95 form part of these financial statements.

BALANCE SHEET

at 31 December 2012
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Interests in subsidiaries	15	**133,201**	–
Current assets			
Other receivables	18	**342**	8
Cash and cash equivalents	20(a)	**119**	–
		461	8
Current liabilities			
Other payables	21	**(1,216)**	–
Net current (liabilities)/assets		**(755)**	8
NET ASSETS		**132,446**	8
CAPITAL AND RESERVES			
Capital	24	**8,135**	8
Reserves	24	**124,311**	–
TOTAL EQUITY		**132,446**	8

Approved and authorised for issue by the board of directors on 22 March 2013

Wu Zheyan
Chairman

Wu Qingshan
Director

The notes on pages 40 to 95 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Attributable to equity holders of the Company					
	Capital RMB'000 (note 24(c))	Share premium RMB'000 (note 24(d)(i))	Exchange reserve RMB'000 (note 24(d)(ii))	Statutory reserve RMB'000 (note 24(d)(iii))	Retained profits RMB'000	Total RMB'000
At 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	–	–	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 and 1 January 2012	8	–	1,864	14,974	129,748	146,594
Changes in equity for 2012:						
Profit for the year	–	–	–	–	80,091	80,091
Other comprehensive income	–	–	1,167	–	–	1,167
Total comprehensive income	–	–	1,167	–	80,091	81,258
Issue of shares upon initial public offering, net of issuing costs	1,464	132,925	–	–	–	134,389
Capitalisation issue	6,663	(6,663)	–	–	–	–
Appropriations to statutory reserve	–	–	–	9,638	(9,638)	–
	8,127	126,262	–	9,638	(9,638)	134,389
At 31 December 2012	8,135	126,262	3,031	24,612	200,201	362,241

The notes on pages 40 to 95 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

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

	Note	2012 RMB'000	2011 RMB'000
Operating activities			
Cash (used in)/generated from operations	20(b)	**(11,141)**	70,034
Income tax paid		**(22,746)**	(8,493)
Net cash (used in)/generated from operating activities		**(33,887)**	61,541
Investing activities			
Payment for the purchase of property, plant and equipment		**(50,733)**	(38,388)
Payment for lease prepayments		**(27,720)**	(31,262)
Receipt of government grants to subsidise capital expenditure		**6,849**	18,025
Interest received		**571**	87
Proceeds for disposal of property, plant and equipment		**25**	280
Net cash used in investing activities		**(71,008)**	(51,258)
Financing activities			
Proceeds from new bank loans		**186,907**	143,263
Repayments of bank loans		**(147,022)**	(104,466)
Interest paid		**(7,071)**	(4,765)
Changes in amount due to the Ultimate Controlling Shareholder		**(443)**	(38,681)
Net proceeds from issue of shares upon initial public offering, net of issuing costs		**134,389**	–
Net cash generated from/(used in) financing activities		**166,760**	(4,649)
Net increase in cash and cash equivalents		**61,865**	5,634
Cash and cash equivalents at beginning of the year		**8,202**	2,584
Effect of foreign exchange rate changes		**(26)**	(16)
Cash and cash equivalents at end of the year	20(a)	**70,041**	8,202

The notes on pages 40 to 95 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 GENERAL INFORMATION AND GROUP REORGANISATION

Merry Garden Holdings Limited (the "Company") was incorporated in the Cayman Islands on 17 October 2011 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company and its subsidiaries hereinafter are collectively referred to as the "Group".

Pursuant to a group reorganisation completed on 16 April 2012 (the "Reorganisation") to rationalise the group structure in preparation of the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 25 June 2012 (the "Prospectus"). The Company's Shares were listed on the Stock Exchange on 6 July 2012.

The companies that took part in the Reorganisation were controlled by the same ultimate controlling shareholder, Mr Wu Zheyan (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 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"), which were the Group's operating entities for each of the years presented. Accordingly, the Reorganisation has been accounted for using a principle similar to that for a reverse acquisition as set out in International Financial Reporting Standard 3, Business combinations, with Zhangping Kimura treated as the acquirer for accounting purposes. The consolidated financial statements have been prepared and presented as a continuation of the financial statements of Zhangping Kimura and Merry Garden Wooden Structure with the assets and liabilities of Zhangping Kimura and Merry Garden Wooden Structure recognised and measured at their historical carrying amounts prior to the Reorganisation.

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. However, the directors consider that none of these developments are relevant to the Group. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning on 1 January 2012, which have not been adopted by the Group are set out in note 31.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation and presentation

The consolidated financial statements for the year ended 31 December 2012 comprise the results of operations and state of affairs of the Company and its subsidiaries.

(c) Basis of measurement

These consolidated financial statements are presented in RMB, rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is the historical cost basis except that derivative financial instruments are stated in their fair value (see note 2(g)).

(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 consolidated financial statements and major sources of estimation uncertainty are discussed in note 28.

(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 consolidated financial statements 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 consolidated financial statements. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 consolidated balance sheet at cost less impairment losses (see note 2(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 2(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 2(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 2(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Property, plant and equipment *(Continued)*

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
— Leasehold improvement	Over the unexpired term of lease but no more than 5 years
— 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 2(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Leased assets *(Continued)*

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

(i) Impairment of investments in subsidiaries, trade and other receivables and investment in equity securities *(Continued)*

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 2(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 2(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with IAS34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(k)(i) and (ii)).

Impairment losses recognised in an interim period in respect of available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(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 2(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Construction contracts *(Continued)*

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 consolidated balance sheet as the "Gross amount due from customers for contract work" (as an asset) under "Trade and other receivables" or the "Gross amount due to customers for contract work" (as a liability) under "Trade and other payables", as applicable. Progress billings not yet paid by the customer are included under "Trade and other receivables". Amounts received before the related work is performed are presented as "Receipts 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 2(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Income tax *(Continued)*

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

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) Interest income

Interest income from bank deposits is recognised as it accrues using the effective interest method.

(iv) 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 attaching 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 period 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Translation of foreign currencies *(Continued)*

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

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Related parties *(Continued)*

(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 consolidated financial statements, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

3 TURNOVER

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

Turnover represents

(i) the sales value of goods sold to customers less returns, discounts, and value added taxes and other sales tax; and

(ii) contract revenue derived from projects of outdoor wooden products including the provision of design and installation services.

The amount of each significant category of revenue recognised in turnover is analysed as follows:

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

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

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

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

Details of concentrations of credit risk arising from these customers are set out in note 27(a). Further details regarding the Group's principal activities are disclosed in note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

4 SEGMENT REPORTING

In a manner consistent with how the Group manages its business and the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified three reportable segments, namely Manufacturing and trading of wooden products, Projects of outdoor wooden products and Retail business. No operating segments have been aggregated to form the above reportable segments.

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

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

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

(a) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Reportable segment revenue represents the revenue derived from the Group's external customers by Manufacturing and trading of wooden products, Projects of outdoor wooden products and Retail business, respectively.

The measure used for reportable segment profit is "profit after taxation" of Manufacturing and trading of wooden products, Projects of outdoor wooden products and Retail business, respectively.

A measurement of segment assets and liabilities is not provided regularly to the Group's most senior executive management and accordingly, no segment assets or liabilities information is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

4 SEGMENT REPORTING *(Continued)*

(a) Segment results *(Continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2012 and 2011 is set out below:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

4 SEGMENT REPORTING *(Continued)*

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

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

(c) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the goods were delivered or the services were provided.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

5 OTHER REVENUE AND OTHER NET LOSS

(a) Other revenue

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

The Group received unconditional government subsidies of RMB10,217,000 (2011: RMB2,468,000) for the year ended 31 December 2012. These government subsidies were granted to Zhangping Kimura for subsidising various expenses already incurred and were recognised as other revenue when they became receivable.

The Group received conditional government subsidies of RMB6,849,000 (2011: RMB18,025,000) for the year ended 31 December 2012. The Group recognised the amounts as deferred income that compensates the Group for the cost of its land use right and the cost of infrastructure development. Government subsidies of RMB973,000 (2011: RMB839,000) were recognised as other revenue for the year ended 31 December 2012, which is on a systematic basis over the useful life of the relevant assets (note 23).

(b) Other net loss

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

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

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

(b) Staff costs

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

Pursuant to the relevant labour rules and regulations in the PRC, the Group's entities in the PRC participate in defined contribution retirement benefit schemes (the "Schemes") organised by the local authorities whereby the entities are required to make contributions to the Schemes based on a percentage of the eligible employees' salaries during the years ended 31 December 2012 and 2011. 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. The cap has been increased to HK$25,000 effective from June 2012. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

6 PROFIT BEFORE TAXATION *(Continued)*

(c) Other items

	2012	2011
	RMB'000	RMB'000
Cost of inventories# (note 17(b))	**272,461**	195,247
Depreciation of property, plant and equipment	**6,002**	4,204
Amortisation of lease prepayments	**920**	606
Operating lease charges for properties	**388**	–
Research and development costs	**16,280**	9,775
Auditors' remuneration	**5,288**	1,567

Cost of inventories includes RMB24,333,000 (2011: RMB22,241,000) for the year ended 31 December 2012 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 6(b) for each of these types of expenses.

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

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

	2012 RMB'000	2011 RMB'000
Profit before taxation	**96,756**	81,077
Notional tax on profit before taxation, calculated at the rates applicable in the tax jurisdictions concerned (note (i))	**25,881**	20,682
Effect of PRC tax concession (note (ii))	**(11,218)**	(9,926)
PRC dividend withholding tax (note (iv))	**1,060**	–
Effect of non-deductible expenses	**2,981**	836
Effect of research and development expense bonus deduction (note (iii))	**(2,039)**	(1,222)
Actual tax expense	**16,665**	10,370

Notes:

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

No provision was made for Hong Kong Profits Tax as the Group did not earn any assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2012 and 2011.

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

(ii) Zhangping Kimura applied and was approved for the High and New Technology Enterprise ("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.

(iv) According to the PRC Corporate Income Tax Law and its relevant regulations, dividends receivable by non-PRC resident investors from PRC resident enterprises are subject to withholding income tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. For the year ended 31 December 2012, the Group has adopted a 10% withholding tax rate to accrue for the dividend withholding tax expected to be paid out.

Since the Group can control the quantum and timing of distribution of profits of the Group's subsidiaries in the PRC, deferred tax liabilities are only provided to the extent that such profits are expected to be distributed through dividend payment by the Group's PRC subsidiaries in the foreseeable future. As at 31 December 2012, deferred tax liabilities not recognised relating to the undistributed profits of the Group's PRC subsidiaries to overseas holding company amounted to RMB220,158,000 (2011: RMB130,993,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2012				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Wu Zheyan	180	135	50	7	372
Wu Qingshan	108	49	40	7	204
Xie Qingmei	72	42	40	7	161
	360	226	130	21	737
Non-executive director					
Wu Dongping	72	72	–	7	151
Independent non-executive directors					
Lam Hin Chi	48	–	–	–	48
Jin Zhongwei	49	–	–	–	49
Su Wenqiang	49	–	–	–	49
	146	–	–	–	146
	578	298	130	28	1,034

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

8 DIRECTORS' REMUNERATION *(Continued)*

	2011				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Wu Zheyan	–	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
Independent non-executive directors					
Lam Hin Chi	–	–	–	–	–
Jin Zhongwei	–	–	–	–	–
Su Wenqiang	–	–	–	–	–
	–	–	–	–	–
	–	593	23	14	630

During the years ended 31 December 2012 and 2011, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in note 9 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 years ended 31 December 2012 and 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four are directors for the year ended 31 December 2012 (2011: four), whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the remaining individual are as follows:

	2012 RMB'000	2011 RMB'000
Salaries and other emoluments	**440**	180
Retirement scheme contributions	**10**	–
Discretionary bonuses	**–**	–
	450	180

The above individuals' emoluments are within the following band:

	2012 Number of individuals	2011 Number of individuals
Nil to HK$1,000,000	**1**	1

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDER OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company include a loss of RMB1,518,000 (2011: RMBNil) which has been dealt with in the financial statements of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

11 EARNINGS PER SHARE

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

Weighted average number of ordinary shares

	Number of shares	
	2012	2011
	'000	'000
Effect of issue of shares upon incorporation (note 24(c)(i))	**10**	10
Effect of issue of shares upon subdivision (note 24(c)(ii))	**990**	990
Effect of capitalisation issue (note 24(c)(v))	**819,000**	819,000
Effect of issue of shares upon initial public offering (note 24(c)(v))	**90,000**	–
Weighted average number of ordinary shares at 31 December	**910,000**	820,000

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

There were no potential dilutive ordinary shares during the years ended 31 December 2012 and 2011 and, therefore, diluted earnings per share are the same as the basic earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

12 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Leasehold improvement RMB'000	Plant and machinery RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
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	–	–	(870)	(30)	(588)	–	(1,488)
At 31 December 2011	61,002	–	16,826	2,727	3,045	431	84,031
At 1 January 2012	61,002	–	16,826	2,727	3,045	431	84,031
Additions	723	2,538	7,716	454	1,959	47,741	61,131
Transfers	6,044	–	609	–	–	(6,653)	–
Disposals	–	–	–	–	(98)	–	(98)
At 31 December 2012	67,769	2,538	25,151	3,181	4,906	41,519	145,064
Accumulated depreciation:							
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	–	–	(431)	(27)	(507)	–	(965)
At 31 December 2011	5,744	–	3,408	1,030	1,838	–	12,020
At 1 January 2012	5,744	–	3,408	1,030	1,838	–	12,020
Charge for the year	3,173	137	1,793	424	475	–	6,002
Written back on disposals	–	–	–	–	(92)	–	(92)
At 31 December 2012	8,917	137	5,201	1,454	2,221	–	17,930
Net book value:							
At 31 December 2012	58,852	2,401	19,950	1,727	2,685	41,519	127,134
At 31 December 2011	55,258	–	13,418	1,697	1,207	431	72,011

Buildings which are held for own use are situated in the PRC. At 31 December 2012, buildings with net book value of RMB29,371,000 (2011: RMB31,105,000) and plant and machinery with net book value of RMB12,644,000 (2011: RMBNil) were mortgaged to banks for certain banking facilities granted to the Group (see note 22(c)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

13 LEASE PREPAYMENTS

	The Group	
	2012	2011
	RMB'000	RMB'000
At 1 January	**38,747**	8,091
Add: Additions for the year	**27,720**	31,262
Less: Amortisation for the year	**(920)**	(606)
At 31 December	**65,547**	38,747
Represented by:		
Current portion	**1,368**	812
Non-current portion	**64,179**	37,935
	65,547	38,747

The lease prepayments represent costs of obtaining the land use rights in respect of land located in the PRC and the capitalised costs relating to dredging and leveling of land. These leases expire between 2047 and 2062.

At 31 December 2012, land use rights with an aggregate carrying amount of RMB37,937,000 (2011: RMB38,141,000) were pledged as securities for certain banking facilities granted to the Group (see note 22(c)).

14 OTHER FINANCIAL ASSETS

	The Group	
	2012	2011
	RMB'000	RMB'000
Available-for-sale equity securities:		
Unlisted equity securities, at cost	**2,495**	2,495

The above financial assets represent investment in equity securities of a PRC local bank in Zhangping City, Fujian Province.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

15 INTERESTS IN SUBSIDIARIES

	The Company	
	2012	*2011*
	RMB'000	*RMB'000*
Unlisted shares, at cost	**–**	–
Amounts due from subsidiaries	**133,201**	–
	133,201	–

The investment cost represented the investment in Green Oceans Investment Holdings Limited of USD10.

Amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The directors regard amounts due from subsidiaries as non-current assets and as "interests in subsidiaries" as they do not intend to request repayment of these amounts from the subsidiaries within 12 months of the balance sheet date.

Details of the subsidiaries are set out below. The class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of incorporation/ establishment	Particulars of issued and paid up/ registered capital	Attributable equity interest held by the Company Direct	Attributable equity interest held by the Company Indirect	Principal activities
Green Oceans Investment Holdings Limited ("Green Oceans")	The British Virgin Islands ("BVI") 7 November 2011	10 shares of United States Dollars ("USD") 1 each	100%	–	Investment holding
King Wood (Hong Kong) Holding Limited ("King Wood")	Hong Kong 5 August 2010	10,000 shares of Hong Kong dollars ("HK$") 1 each	–	100%	Sales of outdoor wooden products
Fujian Zhangping Kimura Forestry Products Co., Ltd. 福建省漳平木村林產有限公司 (notes (i), (iii) and (iv))	The People's Republic of China (the "PRC") 17 December 1995	Registered capital of RMB180,000,000	–	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	Registered capital of RMB1,000,000	–	100%	Engaged in projects of outdoor wooden products including the provision of design and installation services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

15 INTERESTS IN SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation/ establishment	Particulars of issued and paid up/ registered capital	Attributable equity interest held by the Company Direct	Attributable equity interest held by the Company Indirect	Principal activities
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	Registered capital of RMB1,000,000	–	100%	Retail sales of outdoor wooden products through self-operated retail shops
Merry Garden (Xiamen) Household Co., Ltd. 美麗家園(廈門)家居有限公司 (notes (ii) and (iii))	The PRC 14 November 2012	Registered capital of RMB5,000,000	–	100%	Retail sales of outdoor wooden products through self-operated retail shops
Merry Garden (Fuzhou) Household Co., Ltd. 美麗家園(福州)家居有限公司 (notes (ii) and (iii))	The PRC 5 December 2012	Registered capital of RMB500,000	–	100%	Retail sales of outdoor wooden products through self-operated retail shops
Merry Garden (Sanming) Household Co., Ltd. 美麗家園(三明)家居有限公司 (notes (ii) and (iii))	The PRC 19 December 2012	Registered capital of RMB500,000	–	100%	Retail sales of outdoor wooden products through self-operated retail shops

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.

(iv) The paid up capital of Zhangping Kimura as at 31 December 2012 was RMB130,000,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

16 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

The Group

(a) Current taxation in the consolidated balance sheet represents:

	2012 RMB'000	2011 RMB'000
At 1 January	**15,799**	9,216
Charged to profit or loss	**16,962**	15,076
PRC corporate income tax paid	**(22,746)**	(8,493)
At 31 December	**10,015**	15,799

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

	Deferred income RMB'000	**Unrealised profits on inventories** RMB'000	**Unrealised gain on derivative financial instruments** RMB'000	**PRC dividend withholding tax** RMB'000	**Total** RMB'000
Deferred tax arising from:					
At 1 January 2011	226	–	(117)	–	109
Credited to profit or loss (note 7(a))	4,296	338	72	–	4,706
At 31 December 2011	4,522	338	(45)	–	4,815
At 1 January 2012	4,522	338	(45)	–	4,815
Credited/(charged) to profit or loss (note 7(a))	1,468	(124)	13	(1,060)	297
At 31 December 2012	5,990	214	(32)	(1,060)	5,112

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

16 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(Continued)*

The Group *(Continued)*

(b) Deferred tax assets and liabilities recognised *(Continued)*

Reconciliation to consolidated balance sheet:

	The Group	
	2012	2011
	RMB'000	RMB'000
Net deferred tax asset recognised in the consolidated balance sheet	**6,172**	4,815
Net deferred tax liabilities recognised in the consolidated balance sheet	**(1,060)**	–
	5,112	4,815

17 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

18 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**133,935**	81,892	**–**	–
Deposits and prepayments (notes (i) and (ii))	**40,795**	9,516	**–**	–
Amount due from a related company (note 26(c))	**724**	508	**–**	–
Amount due from a director (note 26(d))	**–**	480	**–**	–
Derivative financial instruments (note 27(d))	**220**	305	**–**	–
Gross amount due from customers for contract work (note (iii))	**3,139**	276	**–**	–
Other receivables	**3,078**	1,699	**342**	8
	181,891	94,676	**342**	8

Notes:

(i) Included in the deposits as at 31 December 2011 were guarantee deposits of RMB3,580,000 placed with guarantee companies which provided guarantee services in relation to the Group's bank loans (note 22(c). There were no such guarantee deposits as at 31 December 2012.

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

(iii) The aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in the gross amount due from customers for contract work at 31 December 2012 was RMB12,029,000 (2011: RMB7,193,000). This balance includes retention receivables at 31 December 2012 of RMB1,137,000 (2011: RMB867,000), of which RMB292,000 (2011: RMB53,000) was expected to be recovered after more than one year.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

18 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Ageing analysis

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

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

Trade receivables are normally due within 15 to 90 days from the date of billing. Further details of the Group's credit policy are set out in note 27(a).

(b) Trade debtors that are not impaired

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

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

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

19 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 18 and note 22(c)).

20 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents in the consolidated balance sheet and consolidated cash flow statement comprise:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**70,041**	8,202	**119**	–

At 31 December 2012, cash and cash equivalents in the amount of RMB57,562,000 (2011: RMB7,437,000) 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 (used in)/generated from operations:

		The Group	
		2012	2011
	Note	**RMB'000**	RMB'000
Profit before taxation		**96,756**	81,077
Adjustments for:			
Interest expense	6(a)	**5,620**	3,759
Depreciation	12	**6,002**	4,204
Amortisation of lease prepayments	13	**920**	606
Amortisation of deferred income	23	**(973)**	(839)
Net foreign exchange (gain)/loss		**(48)**	1,888
Interest income	5(a)	**(571)**	(87)
Changes in fair value of derivative financial instruments	5(b)	**85**	161
Net (gain)/loss on disposal of property, plant and equipment	5(b)	**(19)**	243
Changes in working capital:			
(Increase)/decrease in inventories		**(20,580)**	197
Increase in trade and other receivables		**(87,226)**	(20,092)
Decrease in trade and other payables		**(2,803)**	(2,719)
(Increase)/decrease in pledged deposits		**(8,304)**	1,636
Cash (used in)/generated from operations		**(11,141)**	70,034

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

21 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables (note 21(a))	**6,138**	9,723	**–**	–
Amount due to the Ultimate Controlling Shareholder (note 26(e))	**–**	443	**–**	–
Receipts in advance	**683**	167	**–**	–
Other payables and accruals (note 21(b))	**5,989**	5,800	**1,216**	–
	12,810	16,133	**1,216**	–

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

21 TRADE AND OTHER PAYABLES *(Continued)*

(b) An analysis of the other payables and accruals is as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Salaries, wages, bonus and other accrued benefits	**1,698**	1,733	**–**	–
Payables for the purchase of property, plant and equipment	**331**	919	**–**	–
Other tax payables	**1,107**	639	**–**	–
Professional fees payables	**1,216**	1,068	**1,216**	–
Others	**1,637**	1,441	**–**	–
	5,989	5,800	**1,216**	–

22 BANK LOANS

(a) At 31 December 2012, the bank loans were repayable as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Within 1 year or on demand	**125,682**	85,797

(b) At 31 December 2012, the bank loans were secured as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Bank loans (note 22(c))		
— secured	**92,104**	65,918
— unsecured	**33,578**	19,879
	125,682	85,797

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

22 BANK LOANS *(Continued)*

(c) The amounts of banking facilities available to the Group and the utilisation at 31 December 2012 are set out as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Banking facilities available		
— secured	**161,487**	144,500
— unsecured	**34,746**	27,600
	196,233	172,100
Amounts utilised		
— bank loans	**125,682**	85,797

The secured banking facilities were secured by the carrying values of the following assets:

	The Group	
	2012	2011
	RMB'000	RMB'000
Pledged deposits (note 19)	**8,500**	–
Buildings (note 12)	**29,371**	31,105
Plant and machinery (note 12)	**12,644**	–
Lease prepayments (note 13)	**37,937**	38,141
	88,452	69,246

At 31 December 2012, RMB20,000,000 (2011: RMB20,000,000) of the Group's utilised banking facilities are due in 2015. However, since the loan agreements of these bank loans allowed the banks an unconditional right to call back these bank loans at any time at their own discretion, the Group classified these bank loans as current liabilities in the consolidated balance sheet.

At 31 December 2011, RMB10,000,000 of the Group's utilised banking facilities were guaranteed by a third party guarantee company, which charged guarantee fees to the Group and required the Group to place guarantee deposits. At the same time, this guarantee company also required Zhangping Jiupengxi Ecological Tourism Development Company Limited ("Jiupengxi"), a company controlled by the Ultimate Controlling Shareholder, to provide back-to-back guarantee to them in relation to such banking facilities utilised by the Group. In September 2012, the guarantee arrangement with a third party guarantee company and Jiupengxi was released.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

22 BANK LOANS *(Continued)*

(c) *(Continued)*

At 31 December 2011, certain of the Group's utilised banking facilities were secured by personal guarantee from Wu Zheyan at nil fee, corporate guarantee from Jiupengxi at nil fee and personal properties owned by Wu Zheyan and Liu Yingyan (Wife of Wu Zheyan) at nil fee. Certain of the Group's utilised banking facilities were guaranteed by third party guarantee companies, which charged guarantee fees to the Group and required the Group to place guarantee deposits. At the same time, these guarantee companies also required Wu Zheyan to provide a back-to-back guarantee to them in relation to the banking facilities utilised by the Group. In June 2012, all such personal guarantee and back-to-back guarantee provided by Wu Zheyan and all pledged properties owned by Wu Zheyan and Liu Yingyan in relation to the Group's bank loans were released.

During 2011 and 2012, all of the Group's banking facilities were subject to the fulfilment of certain covenants, 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 27(b). During 2011 and 2012, none of the covenants relating to drawn down facilities had been breached.

23 DEFERRED INCOME

The movements of deferred income are as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
At 1 January	**18,089**	903
Additions during the year	**6,849**	18,025
Government grant recognised in profit or loss as other revenue	**(973)**	(839)
At 31 December	**23,965**	18,089
Represented by:		
Current portion	**1,295**	920
Non-current portion	**22,670**	17,169
	23,965	18,089

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 5(a)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

24 CAPITAL, RESERVES AND DIVIDENDS

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

(a) Movements in components of equity

	Share capital RMB'000	Share premium RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
Balance at 17 October 2011 (date of incorporation)	–	–	–	–	–
Issue of shares upon incorporation	8	–	–	–	8
Loss and total comprehensive income for the year	–	–	–	–	–
Balance at 31 December 2011 and 1 January 2012	8	–	–	–	8
Loss for the year	–	–	–	(1,518)	(1,518)
Other comprehensive income	–	–	(433)	–	(433)
Total comprehensive income for the year	–	–	(433)	(1,518)	(1,951)
Issue of shares upon initial public offering, net of issuing costs	1,464	132,925	–	–	134,389
Capitalisation issue	6,663	(6,663)	–	–	–
	8,127	126,262	–	–	134,389
At 31 December 2012	8,135	126,262	(433)	(1,518)	132,446

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

24 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Dividends

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

	2012 **RMB'000**	2011 RMB'000
Final dividend proposed after the balance sheet date of 1.30 HK cents (equivalent to approximately RMB1.05 cents) per ordinary share (2011: Nil)	**10,540**	–

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

(c) Share capital

Authorised and issued share capital

	2012 **Number of shares ('000)**	**Amount HK$'000**	2011 Number of shares ('000)	Amount HK$'000
Authorised:				
Ordinary shares of HK$1 each at 1 January 2012/17 October 2011 (date of incorporation)	**390**	**390**	390	390
Share subdivision of authorised share capital of every share of HK$1 each into 100 share of HK$0.01 each on 27 March 2012 (note (ii))	**38,610**	**–**	–	–
Increase in authorised capital on 15 June 2012 (note (iv))	**9,961,000**	**99,610**	–	–
	10,000,000	**100,000**	390	390
Ordinary shares, issued and fully paid:				
Issue of shares upon incorporation (note (i))	**10**	**10**	10	10
Share subdivision on 27 March 2012 (note (ii))	**990**	**–**	–	–
Capitalisation issue on 6 July 2012 (note (v))	**819,000**	**8,190**	–	–
Issue of shares upon initial public offering (note (v))	**180,000**	**1,800**	–	–
	1,000,000	**10,000**	10	10

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

24 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Share capital *(Continued)*

Notes:

(i) 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.

(ii) 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.

(iii) 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. As a result of the Reorganisation, the Company became the holding company of the Group on 16 April 2012.

(iv) Pursuant to the written resolutions of all shareholders of the Company passed on 15 June 2012, the authorised share capital of the Company 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.

(v) On 6 July 2012, the Company was listed on the Main Board of the Stock Exchange following the completion on its initial public offering of 180,000,000 shares of HK$1.0 each to the investors. The proceeds of HK$1,800,000 (equivalent to RMB1,464,300) representing the par value of these ordinary shares, were credited to the Company's share capital account. The remaining proceeds of HK$178,200,000 (equivalent to RMB144,965,000), less the share issuing costs of RMB12,040,000, amounted to RMB132,925,000, were credited to the Company's share premium account.

On the same date, 819,000,000 shares were issued at par value to the shareholders of the Company by way of capitalisation of HK$8,190,000 (equivalent to RMB6,663,000) from the Company's share premium account.

(vi) Capital in the consolidated balance sheets as at 1 January and 31 December 2011 represented the aggregate amount of capital of the companies comprising the Group, after elimination of investments in subsidiaries.

(d) Nature and purpose of reserves

(i) Share premium

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company.

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company is distributed to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Exchange reserve

The exchange reserve comprises all foreign currency differences arising from the translation of the financial statements of the entities with functional currency other than Renminbi. The reserve is dealt with in accordance with the accounting policy set out in note 2(v).

(iii) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

24 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(d) Nature and purpose of reserves *(Continued)*

(iii) Statutory reserve *(Continued)*

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.

(e) Distributable reserves

The aggregate amounts of reserves available for distribution to equity shareholders of the Company were RMB124,311,000 (2011: RMBNil). The Company was incorporated on 17 October 2011 and has not made any profits since its date of incorporation. Accordingly, there was no reserve available for distribution to shareholders as at 31 December 2011.

After the balance sheet date, the directors proposed a final dividend of 1.30 HK cents (equivalent to approximately RMB1.05 cents) (2011: Nil) per ordinary share, amounting to RMB10,540,000. This dividend has not been recognised as a liability at the balance sheet date.

(f) 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 2012 were RMB362,241,000 (2011: RMB146,594,000).

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 22(c), neither the Company nor any of the subsidiaries are subject to externally imposed capital requirements in prior or current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

25 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2012 not provided for in these consolidated financial statements were as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Contracted for	**36,748**	15,016
Authorised but not contracted for	**–**	–
	36,748	15,016

(b) At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases in respect of rental of offices and retail shops are repayable as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Within 1 year	**1,339**	–
After 1 year but within 5 years	**799**	–
	2,138	–

The leases typically run for an initial period of two to five years, with an option to renew when all terms are renegotiated. None of the leases include contingent rentals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

26 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed in notes 8, 9, 18, 21 and 22 of these consolidated financial statements, the Group entered into the following significant related party transactions during the year presented.

(a) Name and relationship with related parties

During the year presented, the directors are of the view that related parties of the Group include the following individuals/entities:

Name of party	Relationships
Wu Zheyan 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
Zhangping Jiupengxi Ecological Tourism Development Company Limited 漳平市九鵬溪生態旅遊發展有限責任公司 (“Jiupengxi”)	A private company controlled by Wu Zheyan
Zhangping Jiajia Anti-corrosion Wooden Products Manufacturing Co., Ltd. 漳平市佳家防腐木材製品廠 (“JJMC”) (note)	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.

Note: 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.

(b) Significant related party transactions

Particulars of significant related party transactions during the year presented are as follows:

	2012 RMB’000	2011 RMB’000
Sales of wooden products and contract revenue of outdoor wooden projects derived from:		
Jiupengxi	**7,985**	2,065
Purchase of raw materials from:		
JJMC	–	2,090

The directors confirm that the above sales and purchase transactions are entered into with trading terms similar to those with third parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

26 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Amount due from a related company

	2012 RMB'000	2011 RMB'000
Jiupengxi	**724**	508

The amount due from a related company was arisen from normal sales transactions. It was unsecured, interest-free and expected to be settled according to credit term which is similar to that with third parties.

(d) Amount due from a director

	2012 RMB'000	2011 RMB'000
Wu Qingshan	–	480

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 2012 was RMB480,000 (2011: RMB480,000).

(e) Amount due to the Ultimate Controlling Shareholder

	2012 RMB'000	2011 RMB'000
Wu Zheyan	–	443

The amount due to the Ultimate Controlling Shareholder at 31 December 2011 was unsecured, interest-free and repayable on demand.

(f) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2012 RMB'000	2011 RMB'000
Short-term employee benefits	**1,408**	860
Retirement scheme contributions	**44**	13
	1,452	873

Total remuneration was included in "staff costs" (see note 6(b)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

26 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(g) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of the transactions with Jiupengxi above (note 26 (b)) constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules, details of which have been disclosed in the Prospectus.

27 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 significant overdue balances are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(a) Credit risk *(Continued)*

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 2012, 11% (2011: 3%), of the total trade and other receivables was due from the Group's largest customer and 24% (2011: 41%), was due from the five largest customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet 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 18.

(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 2012 of the Group's and the Company'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 date) and the earliest date the Group and the Company are required to settle these liabilities.

The Group

	2012		
	Within 1 year or on demand RMB'000	Total contractual undiscounted cash flow RMB'000	Balance sheet carrying amount RMB'000
Bank loans	129,611	129,611	125,682
Trade and other payables	12,810	12,810	12,810
	142,421	142,421	138,492

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(b) Liquidity risk *(Continued)*

The Group *(Continued)*

	2011		
	Within 1 year or on demand RMB'000	Total contractual undiscounted cash flow RMB'000	Balance sheet carrying amount RMB'000
Bank loans	88,151	88,151	85,797
Trade and other payables	16,133	16,133	16,133
	104,284	104,284	101,930

The Company

	2012		
	Within 1 year or on demand RMB'000	**Total contractual undiscounted cash flow RMB'000**	**Balance sheet carrying amount RMB'000**
Other payables	**1,216**	**1,216**	**1,216**

	2011		
	Within 1 year or on demand RMB'000	Total contractual undiscounted cash flow RMB'000	Balance sheet carrying amount RMB'000
Other payables	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(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 2012:

	2012 Effective interest rate %	**2012** Amount RMB'000	2011 Effective interest rate %	2011 Amount RMB'000
Fixed rate borrowings:				
RMB, Euros and USD bank loans	**5.77%**	**86,136**	6.17%	12,279
Variable rate borrowings:				
RMB and USD bank loans	**6.72%**	**39,546**	7.35%	73,518
Total net borrowings		**125,682**		85,797
Net fixed rate borrowings as a percentage of total net borrowings		**69%**		14%

(ii) Sensitivity analysis

At 31 December 2012, 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 RMB336,000 (2011: RMB625,000). 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 date, 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 at 31 December 2011 has been performed on the same basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(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 associated with the bank borrowings as the Group's borrowings are denominated in RMB, USD and Euros.

During the year presented, 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.

At 31 December 2012, the Group had foreign currency forward contracts with an unrealised gain of RMB220,000 (2011: RMB305,000) recognised as derivative financial instruments and are included within "Trade and other receivables" (note 18). The changes in fair value of the foreign currency forward contracts were recognised in the consolidated income statement (note 5(b)).

(i) Exposure to currency risk

The following table details the Group's and the Company's exposure at 31 December 2012 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 date. 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.

The Group

	2012			2011		
	United States Dollars RMB'000	**Euros RMB'000**	**RMB RMB'000**	United States Dollars RMB'000	Euros RMB'000	RMB RMB'000
Trade and other receivables	**28,681**	**50**	**–**	25,412	81	–
Cash and cash equivalents	**5,954**	**92**	**203**	534	1	–
Bank loans	**(24,788)**	**(5,494)**	**–**	(3,697)	–	–
Trade and other payables	**(929)**	**(143)**	**–**	(8,863)	–	(21,000)
Net exposure arising from recognised assets and liabilities	**8,918**	**(5,495)**	**203**	13,386	82	(21,000)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(d) Currency risk *(Continued)*

(i) Exposure to currency risk *(Continued)*

The Company

	2012 RMB RMB'000	2011 RMB RMB'000
Trade receivables	**342**	–
Cash and cash equivalents	**116**	–
Trade and other payables	**(1,288)**	–
Net exposure arising from recognised assets and liabilities	**(830)**	–

(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 date 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.

The Group

	2012		2011	
	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits RMB'000
United States Dollars	**5%**	**361**	5%	588
	(5)%	**(361)**	(5)%	(588)
Euros	**5%**	**(240)**	5%	3
	(5)%	**240**	(5)%	(3)
RMB against HK$	**5%**	**7**	5%	(877)
	(5)%	**(7)**	(5)%	877

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis *(Continued)*

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 rates 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 at 31 December 2011 has been performed on the same basis.

(e) Commodity price risk

The major raw materials used in the production of the Group's products include, 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. The Group monitors its commodity price risk by widening its supply base and performs bulk purchase when the price of raw materials is low.

(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 consolidated balance sheet date 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(f) Fair values *(Continued)*

(i) Financial instruments carried at fair value *(Continued)*

At 31 December 2012, the Group's derivative financial instruments (note 18) were carried at fair value, and these instruments fall into Level 2 of the fair value hierarchy described above.

During the year presented, 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 2012 and 2011.

28 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 consolidated financial statements.

(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 date 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 date.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

28 ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(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.

29 NON-ADJUSTING POST BALANCE SHEET EVENTS

On 8 March 2013, Zhangping Kimura entered into an agreement with Zhangping Land Reserve Centre ("Land Reserve Centre"), an administrative body of the local governmental authority at Zhangping, Fujian province, in relation to the land resumption of eight parcels of land located at Fushan Industrial Zone (the "Land") currently occupied by Zhangping Kimura for a consideration of RMB62,390,000 (the "Consideration"). Currently, two of the Group's seven production lines are located on the Land. The carrying values of the land use right and immovable structures located on the Land as at 31 December 2012 amounted to approximately RMB7,963,000 and RMB3,974,000, respectively.

The Consideration has been determined after taking into account the costs of the Land and the immovable structures on the Land and the related costs of relocation and disposal of facilities. The Consideration is expected to be settled by the Land Reserve Centre on or before 30 June 2013. Zhangping Kimura is required to return the land use rights of the Land to the Land Reserve Centre within 180 days from the date it receives the Consideration.

The Company made an announcement of the above discloseable transaction on 8 March 2013.

30 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

Upon the completion of the Reorganisation on 16 April 2012, 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 Zheyan respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

(Expressed in Renminbi unless otherwise indicated)

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

Up to the date of issue of these consolidated financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2012 and which have not been adopted in the consolidated financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 1, *Presentation of financial statements* — *Presentation of items of other comprehensive income*	1 July 2012
IAS 27, *Separate financial statements (2011)*	1 January 2013
IFRS 10, *Consolidated financial statements*	1 January 2013
IFRS 13, *Fair value measurement*	1 January 2013
IFRS 9, *Financial instruments*	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.

FOUR-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years, as extracted from the audited financial statements and the Company's prospectus dated 25 June 2012, is set out below:

	Year ended 31 December			
	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Results				
Turnover	**421,171**	307,151	199,603	110,033
Cost of sales	**(272,461)**	(195,247)	(127,719)	(80,576)
Gross profit	**148,710**	111,904	71,884	29,457
Other revenue	**11,761**	3,504	3,073	3,022
Other net (loss)/income	**(780)**	(1,686)	1,924	57
Selling and distribution expenses	**(10,146)**	(9,233)	(5,495)	(4,482)
Administrative expenses	**(47,169)**	(19,653)	(6,663)	(4,891)
Financial costs	**(5,620)**	(3,759)	(1,293)	(1,190)
PROFIT BEFORE TAXATION	**96,756**	81,077	63,430	21,973
Income tax	**(16,665)**	(10,370)	(10,298)	(5,581)
PROFIT FOR THE YEAR	**80,091**	70,707	53,132	16,392
Earnings per share — Basic and diluted (RMB)	**0.09**	0.09	0.06	0.02

ASSETS, LIABILITIES AND EQUITY

	As at 31 December			
	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**535,773**	282,412	189,616	114,818
TOTAL LIABILITIES	**173,532**	135,818	115,266	72,935
TOTAL EQUITY	**362,241**	146,594	74,350	41,883