



CHINA WOOD OPTIMIZATION (HOLDING) LIMITED
中國優材(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8099



FIRST QUARTERLY REPORT
2014

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This report, for which the directors (the “Directors”) of China Wood Optimization (Holding) Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

Financial Highlights

For the three months ended 31 March 2014, operating results of the Group were as follows:

- Turnover reached about RMB81.4 million (2013: RMB63.1 million), representing an increase of 29.0% as compared to the same period of previous financial year;
- Profit for the three months ended 31 March 2014 amounted to about RMB6.4 million (2013: RMB2.3 million), representing an increase of 179.3% as compared to the same period of previous financial year;
- Basic and diluted earnings per share for the three months ended 31 March 2014 based on weighted average number of ordinary shares of about 986,111,000 shares (2013: 729,880,000 shares) in issue was RMB0.7 cent (2013: RMB0.3 cent); and
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2014 (2013: Nil).

Unaudited Consolidated Statement of Profit or Loss

For the three months ended 31 March 2014

The board of Directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2014 together with the comparative unaudited figures for the corresponding period in 2013 as follows:

	Note	Three months ended 31 March	
		2014 RMB'000	2013 RMB'000
Turnover	4	81,418	63,102
Cost of sales		(57,040)	(49,185)
Gross profit	4	24,378	13,917
Other revenue		470	231
Other net income		26	40
Selling expenses		(878)	(668)
Administrative expenses		(12,497)	(6,551)
Profit from operations		11,499	6,969
Finance costs	5(a)	(3,847)	(4,121)
Profit before taxation	5	7,652	2,848
Income tax	6	(1,224)	(547)
Profit attributable to equity shareholders of the Company for the period		6,428	2,301
Earnings per share			
— Basic and diluted (RMB)	7	0.007	0.003

Unaudited Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the three months ended 31 March 2014

	Three months ended	
	31 March	
	2014	2013
	RMB'000	RMB'000
Profit for the period	6,428	2,301
Other comprehensive income for the period (before and after tax)		
Items that may be reclassified subsequently to profit or loss:		
— Exchange differences on translation into presentation currency	1,315	15
Total comprehensive income attributable to equity shareholders of the Company for the period	7,743	2,316

Unaudited Consolidated Statement Of Changes In Equity

For the three months ended 31 March 2014

	Attributable to equity shareholders of the Company						
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory reserves RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2013	-	-	30	6,570	(81)	56,117	62,636
Changes in equity for the three months ended 31 March 2013:							
Profit for the period	-	-	-	-	-	2,301	2,301
Other comprehensive income	-	-	-	-	15	-	15
Total comprehensive income	-	-	-	-	15	2,301	2,316
Issuance of shares	1	85,288	-	-	-	-	85,289
Balance at 31 March 2013 and 1 April 2013	1	85,288	30	6,570	(66)	58,418	150,241
Changes in equity for the nine months ended 31 December 2013:							
Profit for the period	-	-	-	-	-	50,828	50,828
Other comprehensive income	-	-	-	-	243	-	243
Total comprehensive income	-	-	-	-	243	50,828	51,071
Capitalisation issue	5,953	(5,953)	-	-	-	-	-
Appropriation to reserves	-	-	-	6,655	-	(6,655)	-
	5,953	(5,953)	-	6,655	-	(6,655)	-
Balance at 31 December 2013	5,954	79,335	30	13,225	177	102,591	201,312
Balance at 1 January 2014	5,954	79,335	30	13,225	177	102,591	201,312
Changes in equity for the three months ended 31 March 2014:							
Profit for the period	-	-	-	-	-	6,428	6,428
Other comprehensive income	-	-	-	-	1,315	-	1,315
Total comprehensive income	-	-	-	-	1,315	6,428	7,743
Issuance of shares by the listing of the Company's shares (Note 8(b))	1,967	180,641	-	-	-	-	182,608
Balance at 31 March 2014	7,921	259,976	30	13,225	1,492	109,019	391,663

Notes to the Unaudited Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

1 CORPORATE INFORMATION

China Wood Optimization (Holding) Limited (the “Company”) was incorporated in the Cayman Islands on 6 June 2012 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time. The shares of the Company were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 6 January 2014. The condensed consolidated financial information of the Company as at and for the three months ended 31 March 2014 comprise the Company and its subsidiaries (collectively referred to as the “Group”). The principal activities of the Group are the processing, production and sale of wooden products.

2 BASIS OF PREPARATION

The unaudited condensed financial information for the three months ended 31 March 2014 (the “First Quarterly Financial Information”) has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange, and with the same accounting policies adopted in the 2013 annual financial statements of the Group, except for accounting policy changes that are expected to be reflected in the 2014 annual financial statements of the Group. Details of these changes in accounting policies are set out in Note 3.

The First Quarterly Financial Information contains unaudited consolidated statement of profit or loss, unaudited consolidated statement of profit or loss and other comprehensive income, unaudited consolidated statement of changes in equity and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial performance of the Group since the 2013 annual financial statements. The First Quarterly Financial Information and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

The First Quarterly Financial Information has not been audited by the Company’s auditors.

3 CHANGES IN ACCOUNTING POLICIES

The International Accounting Standards Board has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group’s financial statements:

- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*
- Amendments to IAS 32, *Financial instruments: Presentation — Offsetting financial assets and financial liabilities*
- Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*

The adoption of the amendments does not have an impact on the First Quarterly Financial Information.

Notes to the Unaudited Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

4 TURNOVER

The principal activities of the Group are the processing, production and sale of wooden products. Turnover represents the sales value of goods supplied to customers, net of value added tax.

The amount of each significant category of turnover recognised during the period is as follows:

	Three months ended 31 March 2014		
	Processed Wood Panels RMB'000	Processed Finger Joint Wood Panels RMB'000	Total RMB'000
Turnover from external customers and reportable segment turnover	66,022	15,396	81,418
Reportable segment gross profit	21,947	2,431	24,378

	Three months ended 31 March 2013		
	Processed Wood Panels RMB'000	Processed Finger Joint Wood Panels RMB'000	Total RMB'000
Turnover from external customers and reportable segment turnover	47,112	15,990	63,102
Reportable segment gross profit	11,523	2,394	13,917

Notes to the Unaudited Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs:

	Three months ended	
	31 March	
	2014	2013
	RMB'000	RMB'000
Interest on bank and other loans wholly repayable within five years	2,601	3,723
Bank charges and other finance costs	134	398
Total borrowing costs	2,735	4,121
Net foreign exchange loss	1,112	–
	3,847	4,121

(b) Staff costs:

	Three months ended	
	31 March	
	2014	2013
	RMB'000	RMB'000
Salaries, wages and other benefits	4,665	3,407
Contributions to defined contribution retirement scheme	528	368
	5,193	3,775

(c) Other items:

	Three months ended	
	31 March	
	2014	2013
	RMB'000	RMB'000
Depreciation and amortisation	4,732	3,344
Operating lease charges in respect of plant and buildings	307	244
Research and development costs (including costs relating to staff costs disclosed in Note 5(b))	6,059	1,572
Interest income	(179)	(6)
Cost of inventories	57,040	49,185

Notes to the Unaudited Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

6 INCOME TAX

	Three months ended	
	31 March	
	2014	2013
	RMB'000	RMB'000
Current taxation:		
— The People's Republic of China (the "PRC") Corporate Income Tax	1,174	827
Deferred taxation:		
— Origination and reversal of temporary differences	50	(280)
	1,224	547

The Company and a subsidiary of the Group incorporated in the Cayman Islands and the British Virgin Islands, respectively, are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.

The Company and the subsidiary of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the three months ended 31 March 2014 (three months ended 31 March 2013: 16.5%).

The subsidiary of the Group established in the PRC is subject to the PRC Corporate Income Tax rate of 25% for the three months ended 31 March 2014 (three months ended 31 March 2013: 25%). In December 2012, the subsidiary of the Group established in the PRC obtained an approval from the tax bureau to be taxed as an advanced and new technology enterprise. Pursuant to the approval, this subsidiary is entitled to a preferential PRC Corporate Income Tax rate of 15% for a period of three years from 2012 to 2014. In addition to the preferential PRC Corporate Income Tax rate, this subsidiary is also entitled to an additional tax deductible allowance calculated at 50% of the qualified research and development costs incurred by this subsidiary.

Notes to the Unaudited Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

7 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share for the three months ended 31 March 2014 is calculated based on the unaudited profit attributable to equity shareholders of the Company of RMB6,428,000 (three months ended 31 March 2013: RMB2,301,000) and the weighted average of 986,111,000 ordinary shares (three months ended 31 March 2013: 729,880,000 ordinary shares) in issue during the period, calculated as follows:

	Three months ended	
	31 March	
	2014	2013
	'000	'000
Issued ordinary shares at 1 January	750,000	–
Effect of shares issued to the ultimate holding company on 23 January 2013	–	4
Effect of bonus element on the issuance of shares to the ultimate holding company on 23 January 2013	–	89
Effect of shares issued to other equity shareholder of the Company on 24 January 2013	–	4
Effect of capitalisation issue on 30 December 2013	–	729,783
Effect of shares issued by the listing of the Company's shares on 6 January 2014	236,111	–
Weighted average number of ordinary shares at 31 March	986,111	729,880

(b) Diluted earnings per share

There was no difference between basic and diluted earnings per share as the Company did not have any dilutive potential shares outstanding during the three months ended 31 March 2014 and 2013.

8 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

The directors of the Company do not recommend the payment of a dividend for the three months ended 31 March 2014 (three months ended 31 March 2013: RMBNil).

(b) Issuance of shares by the listing of the Company's shares

On 6 January 2014, the shares of the Company were listed on the Stock Exchange, where 250,000,000 shares of HK\$0.01 each were issued and subscribed at a price of HK\$1.00 each. The proceeds of HK\$2,500,000 (equivalent to approximately RMB1,967,000), representing the par value, were credited to the Company's share capital. The remaining proceeds of HK\$229,828,000 (equivalent to approximately RMB180,641,000), net of share issuance expenses of approximately RMB14,092,000, were credited to the share premium account.

Management Discussions and Analysis

BUSINESS REVIEW

For the three months ended 31 March 2014, the Group continued to engage in the processing, manufacturing and sale of its Processed Wood Panels (as defined below) and Processed Finger Joint Wood Panels (as defined below) (collectively referred to as the “Processed Wood Products”).

All the Processed Wood Products are processed by the Group’s processing procedure (the “Wood Processing Procedure”), by which raw wood panels pass through an impregnation procedure of the Group’s own impregnation fluid made with biological synthetic resin technologies. The Group applies the Wood Processing Procedure to poplars, a fast-growing tree species that withstands long, cold winters and short summers. Since poplars have a relatively short growth cycle of about 7 to 10 years, the supply of poplars in the PRC is relatively abundant and stable. The Group’s Wood Processing Procedure improves the hardness, shrinkage and swelling rate, density, deformation resistance, cracking resistance, anticorrosiveness, bending strength and elasticity of poplar wood. In addition, poplar logs and wood panels that have been processed through the Group’s Wood Processing Procedures are strengthened in terms of moisture resistance and flame resistance. Natural wood grain and figure are also preserved in the end-products. After the Group’s Wood Processing Procedure, poplar can be used as a substitute of natural solid woods with wide application in the field of furniture making and indoor furnishing.

Processed Wood Panels

Processed wood panels (“Processed Wood Panels”) are the Group’s principal products which are principally made of poplar wood panels that have been processed by the Group’s Wood Processing Procedure and then shaved, sanded and trimmed into strips of wood panels according to the dimension and other specifications specified by customers. The Group’s Processed Wood Panels are generally used to produce floor planks and furniture.

The Group also offers to its customers less-shaved Processed Wood Panels which involves lesser production processes and lower wastage of production materials.

Processed Finger Joint Wood Panels

Processed finger joint wood panels (“Processed Finger Joint Wood Panels”) are another major type of products of the Group. After the Wood Processing Procedure, Processed Wood Panels are trimmed into desired dimensions. Cut-offs and small pieces produced during the trimming process are laminated, pressed and further processed to form Processed Finger Joint Wood Panels. Processed Finger Joint Wood Panels are in the form of standard-sized boards of wooden panels, and are generally used to produce wooden furniture, doors and window frames.

For the three months ended 31 March 2014, all the Group’s Processed Wood Products were sold to its customers in the PRC. These customers mainly included manufacturers of floor planks and planks on stairs, manufacturers of furniture and wooden crates and wholesalers of wooden panels. As the Group understands, these wholesalers of wooden panels resold the Group’s products to other wholesalers or manufacturers for the production of floor planks, wooden furniture, doors and window frames. In order to expand and consolidate its market shares, the Group participated in two exhibitions held in Beijing and Dongguan in March 2014. Besides, the Group’s branch office in Beijing is under decoration and the operation is expected to commence in July 2014.

In addition, the Group installed 7 new sets of thermocompressor during the three months ended 31 March 2014 and trial run is being conducted. It is expected that the Group’s production efficiency and effectiveness will be enhanced after the newly installed thermocompressors are in full operation.

Management Discussions and Analysis

The Company's shares were successfully listed on the GEM (the "Listing") on 6 January 2014 (the "Listing Date"). The net proceeds from the Company's placing (the "Placing") were about HK\$229.6 million after deducting listing-related expenses and 250,000,000 new shares were issued at a price of HK\$1.0 per share pursuant to the Placing.

FINANCIAL REVIEW

Turnover

The Group recorded an increase in its turnover by about RMB18.3 million or 29.0% from about RMB63.1 million for the three months ended 31 March 2013 to about RMB81.4 million for the three months ended 31 March 2014. The increase in turnover was mainly attributable to the increase in turnover of Processed Wood Panels. The average selling prices of Processed Wood Panels increased from about RMB3,333 per cubic meter in the first quarter of 2013 to about RMB3,977 per cubic meter in the first quarter of 2014. The average selling prices of Processed Finger Joint Wood Panels also increased from about RMB3,998 per cubic meter in the first quarter of 2013 to about RMB4,359 per cubic meter in the first quarter of 2014. The increase in the average selling prices was driven by the increased quality and market recognition of the Group's Processed Wood Products and the Group was able to shift part of the increased cost to its customers. In addition, due to the continued increase in demand of the Group's Processed Wood Panels, the total volume of Processed Wood Panels sold also increased from about 14,135 cubic meters for the three months ended 31 March 2013 to about 16,603 cubic meters for the three months ended 31 March 2014.

TURNOVER BY SEGMENT

Analysis of turnover by segment is as follows:

	Three months ended 31 March					
	2014			2013		
	Volume (m ³)	RMB'000	%	Volume (m ³)	RMB'000	%
Processed Wood Panels	16,603	66,022	81.1	14,135	47,112	74.7
Processed Finger Joint Wood Panels	3,532	15,396	18.9	4,000	15,990	25.3
	20,135	81,418	100.0	18,135	63,102	100.0

Analysis of average selling price per cubic meter of the Group's products is as follows:

	Three months ended 31 March	
	2014	2013
	RMB	RMB
Processed Wood Panels	3,977	3,333
Processed Finger Joint Wood Panels	4,359	3,998
Overall average	4,044	3,480

Management Discussions and Analysis

Processed Wood Panels

Turnover from sales of Processed Wood Panels increased substantially by about RMB18.9 million or 40.1% from about RMB47.1 million for the three months ended 31 March 2013 to about RMB66.0 million for the three months ended 31 March 2014. The substantial increase in sales of Processed Wood Panels was primarily due to the increasing market recognition and demand of the Group's Processed Wood Panels. The percentage of sales of Processed Wood Panels increased from about 74.7% for the three months ended 31 March 2013 to about 81.1% for the three months ended 31 March 2014 as it was the intention of the Group to promote the sales of Processed Wood Panels which had a higher profit margin than that of the Processed Finger Joint Wood Panels.

Following the enhancement of the product quality, the increasing market recognition and the continuing increase in demand of the Group's Processed Wood Panels, the Group was able to raise its average selling price from about RMB3,333 per cubic meter for the three months ended 31 March 2013 to about RMB3,977 per cubic meter for the three months ended 31 March 2014.

Processed Finger Joint Wood Panels

Turnover from sales of Processed Finger Joint Wood Panels slightly decreased by about 3.8% from RMB16.0 million in 2013 to RMB15.4 million in 2014. The decrease was mainly a result of the Group's intention to reduce the sales of the Group's Processed Finger Joint Wood Panels and the Group focused on the sales of Processed Wood Panels, as the production of Processed Wood Panels requires lesser production process that allows the Group to utilise its production capacity more efficiently. As the Group's production capacity was mainly used to produce Processed Wood Panels during the three months ended 31 March 2014, there was a decrease in sales of Processed Finger Joint Wood Panels.

Although the sales volume of Processed Finger Joint Wood Panels decreased by about 468 cubic meters or 11.7% from about 4,000 cubic meters for the three months ended 31 March 2013 to about 3,532 cubic meters for the three months ended 31 March 2014, the Group was able to raise its average selling price from about RMB3,998 per cubic meter for the three months ended 31 March 2013 to about RMB4,359 per cubic meter for the three months ended 31 March 2014 due to the enhancement of the product quality.

Cost of Sales

Cost of sales of the Group increased by about RMB7.8 million or 15.9%, from about RMB49.2 million for the three months ended 31 March 2013 to about RMB57.0 million for the three months ended 31 March 2014. The increase was a combined effect of the general increase of the costs of wood materials and other production materials purchased in the PRC during the three months ended 31 March 2014, as a result of the increase in the Group's total sales volume as discussed under the paragraph headed "Turnover" above and the increase in depreciation.

Gross Profit

Gross profit of the Group increased by about 75.5% or RMB10.5 million from about RMB13.9 million for the three months ended 31 March 2013 to about RMB24.4 million for the three months ended 31 March 2014. The increase in gross profit of the Group was mainly attributable to the increase in sales amount and selling price, which was partially offset by the increase in cost of sales.

Management Discussions and Analysis

GROSS PROFIT MARGIN BY SEGMENT

The overall gross profit margin of the Group increased from about 22.1% for the three months ended 31 March 2013 to about 29.9% for the three months ended 31 March 2014. Such increase was mainly attributable to the increase in the average selling price of the Group's Processed Wood Products by about 16.2% for the three months ended 31 March 2014 as compared with its average selling price thereof for the three months ended 31 March 2013 which surpassed the increase in the cost of production materials. The increase in the average selling price of the Group's Processed Wood Products was mainly a result of the increase in quality and the increased market recognition of the Group's products which allowed the Group to sell to its customers its products at a higher selling price.

Processed Wood Panels

Gross profit margin of Processed Wood Panels increased from about 24.5% for the three months ended 31 March 2013 to about 33.2% for the three months ended 31 March 2014. Such increase was mainly attributable to the increase in the average selling price of Processed Wood Panels due to the enhancement of product quality, increasing market recognition and continuous increase in demand of the Group's Processed Wood Panels, which was partially offset by the increase in cost of sales.

Processed Finger Joint Wood Panels

Gross profit margin of Processed Finger Joint Wood Panels slightly increased from about 15.0% for the three months ended 31 March 2013 to about 15.8% for the three months ended 31 March 2014. Such increase was mainly attributable to the increase in its average selling price, which was partially offset by the increase in cost of sales.

The Group's Processed Finger Joint Wood Panels have a lower gross profit margin than Processed Wood Panels because they are made of cut-offs produced in the manufacturing processes of Processed Wood Panels, which are in irregular shapes and sizes. Processing these cut-offs requires more production processes, and more production materials and labour are consumed in the production process. Therefore, the average cost of sales per cubic meter of the Processed Finger Joint Wood Panels sold was higher than that of the Processed Wood Panels but the average selling price of the Processed Finger Joint Wood Panels is in generally lower than that of the traditional Processed Wood Panels which resulted in a lower gross profit margin.

Other Revenue

Other revenue principally represents the Group's rental income, income from government grants and interest income. Rental income represents income from leasing part of the Group's investment properties to an Independent Third Party, for a term of five years from February 2012. Government grants increased by RMB67,000 from RMB9,000 to RMB76,000 because the Group's received subsidies from Handan City Provincial Bureau of Forest* (邯鄲市林業局) and the Department of Finance of Hebei Province* (河北省財政廳) for the construction of wood processing facilities in 2013 and 2014. Interest income represents income from the Group's bank deposits. The Group's interest income increased from about RMB6,000 for the three months ended 31 March 2013 to about RMB178,000 for the three months ended 31 March 2014 because part of the unused funds received from the proceeds from placing have been placed into banks as short-term time deposits during the three months ended 31 March 2014.

Other Net Income

The Group's other net income for the three months ended 31 March 2014 principally represents the gain from sales of scrap materials.

Selling Expenses

The Group's selling expenses increased by about 31.4% or RMB210,000 from about RMB668,000 for the three months ended 31 March 2013 to about RMB878,000 for the three months ended 31 March 2014. Such increase was generally in line with the increase in the Group's turnover.

Management Discussions and Analysis

Administrative Expenses

The Group's administrative expenses increased by about 89.4% or RMB5.9 million from about RMB6.6 million for the three months ended 31 March 2013 to about RMB12.5 million for the three months ended 31 March 2014. The increase was principally due to the increase in research and development expenses and staff costs. The Group's research and development expenses increased by about RMB4.6 million from about RMB1.6 million for the three months ended 31 March 2013 to about RMB6.2 million for the three months ended 31 March 2014 as the Group consumed more research raw materials for its research and development projects for the three months ended 31 March 2014 than the same period in 2013. The staff costs increased from about RMB0.9 million for the three months ended 31 March 2013 to about RMB1.7 million for the three months ended 31 March 2014 which was mainly due to the increase in the number of management and the increase in the directors' remuneration after the Listing.

Finance Costs

The Group's finance cost decreased from about RMB4.1 million for the three months ended 31 March 2013 to about RMB3.8 million for the three months ended 31 March 2014. The decrease was mainly attributable to the decrease in interest expense and related bank and finance charges by about RMB1.4 million for the three months ended 31 March 2014 as a result of the repayment of bank loans and other loans during the first quarter of 2014. Such decrease was off-set by the increase in foreign currency exchange loss of about RMB1.1 million.

Income Tax Expenses

The Group's income tax expenses increased from about RMB0.5 million for the three months ended 31 March 2013 to about RMB1.2 million for the three months ended 31 March 2014. The increase was primarily attributable to the increase in profit before taxation from about RMB2.8 million for the three months ended 31 March 2013 to about RMB7.7 million for the three months ended 31 March 2014.

Profit for the Period

As a combined result of the factors discussed above, the Group's profit for the year increased from about RMB2.3 million for the three months ended 31 March 2013 to about RMB6.4 million for the three months ended 31 March 2014. In addition, the Group's net profit margin increased from about 3.6% for the three months ended 31 March 2013 to about 7.9% for the three months ended 31 March 2014. Such increase was mainly due to the increase in the Group's gross profit margin for the three months ended 31 March 2014.

OUTLOOK

Looking forward, the Group intends to further promote the market recognition of its Processed Wood Products market in the PRC. To achieve this, the Group will continue to (1) expand its production capacity and integrated manufacturing operation; (2) expand the application spectrum and improving the quality of its Processed Wood Products; and (3) expand its sales network.

Management Discussions and Analysis

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 31 March 2014, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as follows:

(i) The Company

Name of Director	Capacity/Nature of Interest	Long/Short position	Number of Shares held	Approximate percentage of shareholding in the Company
Ms. Yim Tsun (Note)	Interests in controlled corporation	Long position	713,250,000	71.3%

(ii) Associated corporation of the Company

Name of Director	Name of associated corporation	Capacity/Nature of interest	Number of shares held	Approximate percentage of shareholding in the associated corporation
Ms. Yim Tsun	Brilliant Plan Holdings Limited (Note)	Beneficial owner	100	100%

Note: The entire issued share capital of Brilliant Plan Holdings Limited is beneficially owned by Ms. Yim Tsun who is deemed to be interested in 713,250,000 Shares held by Brilliant Plan under SFO.

Save as disclosed above, as at 31 March 2014, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Management Discussions and Analysis

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As 31 March 2014, so far as the Directors are aware, the interests or short positions owned by the following persons (other than the Directors or chief executive officer of the Company) in the shares or underlying shares of the Company which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO are as follows:

Long position in the Shares

Name	Natural of interest	Number of securities	Approximate percentage of shareholding
Brilliant Plan Holdings Limited (Note)	Beneficial interest	713,250,000 Shares	71.3%

Note: The entire issued share capital of Brilliant Plan Holdings Limited is beneficially owned by Ms. Yim Tsun. Under the SFO, Ms. Yim Tsun is deemed to be interested in all the Shares held by Brilliant Plan Holdings Limited.

Save as disclosed above and as at 31 March 2014, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or chief executive officer of the Company) in the shares or underlying shares of the Company which are required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

COMPETING INTEREST OF DIRECTORS, CONTROLLING SHAREHOLDERS AND THEIR RESPECTIVE ASSOCIATES

As at 31 March 2014, none of the Directors, controlling shareholders of the Company or any of or their respective associates had any business or interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group and any other conflicts of interests, which is required to be disclosed under Rule 11.04 of the GEM Listing Rules.

INTEREST OF COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed Guotai Junan Capital Limited ("Guotai Junan") to be the compliance adviser. As informed by Guotai Junan, neither Guotai Junan nor any of its directors or employees or associates, has or may, any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities), which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules (except for the compliance adviser agreement entered into between the Company and Guotai Junan) as at 31 March 2014.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities from the Listing Date up to 31 March 2014.

CORPORATE GOVERNANCE PRACTICES

The Board is of the view that the Company has complied with all applicable code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules from the Listing Date up to 31 March 2014.

Management Discussions and Analysis

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE LISTED ISSUERS ("MODEL CODE")

The Company has adopted the Model Code set out in Appendix 15 to the GEM Listing Rules as the code of conduct governing dealings by all Directors in the securities of the Company on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Specific enquiries have been made with all Directors, who have confirmed that, from the Listing Date up to 31 March 2014, they were in compliance with the required provisions set out in the Model Code. All Directors declared that they have complied with the required standard of dealings as set out in the Model Code throughout the period from the Listing Date up to 31 March 2014.

DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2014 (2013: Nil).

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, its holding companies, or any of its subsidiaries was a party, and in which a Director had a material interest, subsisted at the end of the year or at any time during the year.

SHARE OPTION SCHEME

A share option scheme was adopted and approved by shareholders of the Company, and shall be valid and effective for a period of 10 years from 6 January 2014, after which no further options will be granted or offered. No option was outstanding, granted, cancelled and lapsed during the three months ended 31 March 2014.

AUDIT COMMITTEE

The Company has established its audit committee on 20 December 2013 with terms of reference in compliance with the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee has three members comprising the Company's three independent non-executive Directors, namely Mr. Lau Ying Kit, Mr. Pu Junwen and Mr. Zhang Dali. The chairman of the audit committee is Mr. Lau Ying Kit. The Audit Committee has reviewed the unaudited consolidated financial statements of the Group for the three months ended 31 March 2014.

By order of the Board

China Wood Optimization (Holding) Limited

Yim Tsun

Chairlady

Hong Kong, 13 May 2014

As at the date of this report, the executive Directors are Ms. Yim Tsun and Mr. Li Li; and the independent non-executive Directors are Mr. Zhang Dali, Mr. Pu Junwen and Mr. Lau Ying Kit.

This report is prepared in both English and Chinese. In the event of inconsistency, the English text of the report shall prevail over the Chinese text.

* For identification purpose only