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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)

ANNOUNCEMENT OF THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2014

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, 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 announcement 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 announcement misleading.

FINANCIAL HIGHLIGHTS

For the nine months ended 30 September 2014, operating results of the Group were as follows:

- Turnover reached about RMB366.5 million (2013: RMB322.8 million), representing an increase of 13.5% when compared to the same period in 2013;
- Profit for the nine months ended 30 September 2014 amounted to about RMB46.2 million (2013: RMB30.2 million), representing an increase of 53.0% when compared to the same period in 2013;
- Basic and diluted earnings per share for the nine months ended 30 September 2014 based on weighted average number of ordinary shares of about 995,421,000 shares (2013: 743,367,000 shares) in issue was RMB4.6 cents (2013: RMB4.1 cents); and
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2014 (2013: Nil).

THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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 and nine months ended 30 September 2014 together with the comparative unaudited figures for the corresponding period in 2013 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the nine months ended 30 September 2014

(Expressed in Renminbi (“RMB”))

		Three months ended 30 September		Nine months ended 30 September	
		2014	2013	2014	2013
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	4	146,077	124,549	366,518	322,785
Cost of sales		<u>(108,170)</u>	<u>(83,735)</u>	<u>(263,533)</u>	<u>(231,515)</u>
Gross profit	4	37,907	40,814	102,985	91,270
Other revenue		3,557	295	5,664	793
Other net income		98	62	279	228
Selling expenses		(723)	(1,089)	(3,292)	(3,041)
Administrative expenses		(14,455)	(20,226)	(43,572)	(40,173)
Profit from operations		26,384	19,856	62,064	49,077
Finance costs	5(a)	<u>(1,220)</u>	<u>(5,168)</u>	<u>(8,188)</u>	<u>(13,910)</u>
Profit before taxation	5	25,164	14,688	53,876	35,167
Income tax	6	<u>(3,363)</u>	<u>(1,973)</u>	<u>(7,723)</u>	<u>(4,925)</u>
Profit attributable to equity shareholders of the Company for the period		<u>21,801</u>	<u>12,715</u>	<u>46,153</u>	<u>30,242</u>
Earnings per share					
— Basic and diluted (RMB)	7	<u>0.022</u>	<u>0.017</u>	<u>0.046</u>	<u>0.041</u>

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

For the nine months ended 30 September 2014

(Expressed in RMB)

	Three months ended		Nine months ended	
	30 September		30 September	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the period	21,801	12,715	46,153	30,242
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	<u>(30)</u>	<u>19</u>	<u>1,603</u>	<u>203</u>
Total comprehensive income attributable to equity shareholders of the Company for the period	<u>21,771</u>	<u>12,734</u>	<u>47,756</u>	<u>30,445</u>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2014

(Expressed in RMB)

	Attributable to equity shareholders of the Company						Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory reserves RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	
Balance at 1 January 2013	-	-	30	6,570	(81)	56,117	62,636
Changes in equity for the nine months ended 30 September 2013:							
Profit for the period	-	-	-	-	-	30,242	30,242
Other comprehensive income	-	-	-	-	203	-	203
Total comprehensive income	-	-	-	-	203	30,242	30,445
Issuance of shares	1	85,288	-	-	-	-	85,289
Balance at 30 September 2013 and 1 October 2013	1	85,288	30	6,570	122	86,359	178,370
Changes in equity for the three months ended 31 December 2013:							
Profit for the period	-	-	-	-	-	22,887	22,887
Other comprehensive income	-	-	-	-	55	-	55
Total comprehensive income	-	-	-	-	55	22,887	22,942
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 nine months ended 30 September 2014:							
Profit for the period	-	-	-	-	-	46,153	46,153
Other comprehensive income	-	-	-	-	1,603	-	1,603
Total comprehensive income	-	-	-	-	1,603	46,153	47,756
Issuance of shares by way of placing (Note 8(b))	1,967	180,641	-	-	-	-	182,608
Balance at 30 September 2014	7,921	259,976	30	13,225	1,780	148,744	431,676

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 nine months ended 30 September 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 nine months ended 30 September 2014 (the “Third 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 Third 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 Third 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 Third Quarterly Financial Information has not been audited by the Company’s auditors.

3 CHANGES IN ACCOUNTING POLICIES

The International Accounting Standards Board has issued various amendments to IFRSs and Interpretation 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, *Offsetting financial assets and financial liabilities*
- Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*

None of these developments have had a material effect on the Third Quarterly Financial Information.

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 30 September 2014			Nine months ended 30 September 2014		
	Processed Wood Panels <i>RMB'000</i>	Processed Finger Joint Wood Panels <i>RMB'000</i>	Total <i>RMB'000</i>	Processed Wood Panels <i>RMB'000</i>	Processed Finger Joint Wood Panels <i>RMB'000</i>	Total <i>RMB'000</i>
Turnover from external customers and reportable segment turnover	<u>140,734</u>	<u>5,343</u>	<u>146,077</u>	<u>324,693</u>	<u>41,825</u>	<u>366,518</u>
Reportable segment gross profit	<u>37,394</u>	<u>513</u>	<u>37,907</u>	<u>98,402</u>	<u>4,583</u>	<u>102,985</u>
	Three months ended 30 September 2013			Nine months ended 30 September 2013		
	Processed Wood Panels <i>RMB'000</i>	Processed Finger Joint Wood Panels <i>RMB'000</i>	Total <i>RMB'000</i>	Processed Wood Panels <i>RMB'000</i>	Processed Finger Joint Wood Panels <i>RMB'000</i>	Total <i>RMB'000</i>
Turnover from external customers and reportable segment turnover	<u>103,439</u>	<u>21,110</u>	<u>124,549</u>	<u>257,923</u>	<u>64,862</u>	<u>322,785</u>
Reportable segment gross profit	<u>38,059</u>	<u>2,755</u>	<u>40,814</u>	<u>84,266</u>	<u>7,004</u>	<u>91,270</u>

5 PROFIT BEFORE TAXATION

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

(a) Finance costs

	Three months ended 30 September 2014		Nine months ended 30 September 2014	
	<i>RMB'000</i>	2013 <i>RMB'000</i>	<i>RMB'000</i>	2013 <i>RMB'000</i>
Interest on bank and other loans	<u>1,469</u>	4,704	<u>5,354</u>	12,540
Bank charges and other finance costs	<u>6</u>	464	<u>148</u>	1,370
Total borrowing costs	<u>1,475</u>	5,168	<u>5,502</u>	13,910
Net foreign exchange loss	<u>(255)</u>	—	<u>2,686</u>	—
	<u>1,220</u>	<u>5,168</u>	<u>8,188</u>	<u>13,910</u>

(b) Staff costs:

	Three months ended 30 September		Nine months ended 30 September	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Salaries, wages and other benefits	5,298	4,895	15,932	13,286
Contributions to defined contribution retirement schemes	324	469	1,543	1,449
	<u>5,622</u>	<u>5,364</u>	<u>17,475</u>	<u>14,735</u>

(c) Other items:

	Three months ended 30 September		Nine months ended 30 September	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Depreciation and amortisation	4,772	4,844	14,181	13,219
Net gain on disposal of property, plant and equipment	–	–	(92)	–
Operating lease charges in respect of plant and buildings	538	247	1,691	748
Research and development costs (including costs relating to staff costs disclosed in Note 5(b))	8,229	11,858	23,276	19,836
Interest income	(665)	(23)	(1,430)	(40)
Cost of inventories	<u>108,170</u>	<u>83,735</u>	<u>263,533</u>	<u>231,515</u>

6 INCOME TAX

	Three months ended 30 September		Nine months ended 30 September	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Current taxation:				
— The People's Republic of China (the "PRC") Corporate Income Tax	3,516	2,122	7,930	5,383
Deferred taxation:				
— Origination and reversal of temporary differences	(153)	(149)	(207)	(458)
	<u>3,363</u>	<u>1,973</u>	<u>7,723</u>	<u>4,925</u>

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 nine months ended 30 September 2014 (nine months ended 30 September 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 nine months ended 30 September 2014 (nine months ended 30 September 2013: 25%). In December 2012, this subsidiary 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.

7 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share for the nine months ended 30 September 2014 is calculated based on the unaudited profit attributable to equity shareholders of the Company of RMB46,153,000 (nine months ended 30 September 2013: RMB30,242,000) and the weighted average of 995,421,000 ordinary shares (nine months ended 30 September 2013: 743,367,000 ordinary shares) in issue during the period, calculated as follows:

	Three months ended		Nine months ended	
	30 September		30 September	
	2014	2013	2014	2013
	'000	'000	'000	'000
Issued ordinary shares at 1 July/ 1 January	1,000,000	100	750,000	–
Effect of shares issued to the ultimate holding company on 23 January 2013	–	–	–	5
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	–	749,900	–	743,269
Effect of shares issued by way of placing on 6 January 2014	–	–	245,421	–
	<u>1,000,000</u>	<u>750,000</u>	<u>995,421</u>	<u>743,367</u>
Weighted average number of ordinary shares at 30 September	<u>1,000,000</u>	<u>750,000</u>	<u>995,421</u>	<u>743,367</u>

(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 nine months ended 30 September 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 nine months ended 30 September 2014 (nine months ended 30 September 2013: RMBNil).

(b) Issuance of shares by way of placing

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 placed 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 nine months ended 30 September 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"**).

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, doors, sound box 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 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.

Sales and Marketing

For the nine months ended 30 September 2014, all the Group's Processed Wood Products were sold to its customers in the PRC. These customers mainly included manufacturers of floor planks, sound box, furniture, doors and window frames and wholesalers of wooden panels. In order to expand and consolidate its market shares, the Group participated in five exhibitions held in Beijing, Shanghai, Chengdu and Dongguan, respectively, during the nine months ended 30 September 2014. Besides, the Group established three sales offices in Beijing, Chengdu and Shanghai, respectively. These sales offices have commenced their operation in the third quarter of this year.

Research and Development

In order to protect its self-invented intellectual property rights, the Group applied for registration of four patents in the PRC in May 2012. Out of these four patents, the registration of three patents, namely, an “Impregnating Method of a fast growing wood (一種速生材的浸漬方法)”, “A fast growing wood impregnating solution (一種速生材浸漬液)” and a “Manufacturing Method of a fast growing wood impregnating solution (一種速生材浸漬液的製備方法)” have been approved in May 2014 and the registration of Manufacturing Method of a fast growing wood impregnating solution and fast growing wood impregnating solution (速生材浸漬液及速生材浸漬液的製備) has subsequently been approved in July 2014. The Group will continue to apply for the registration of other patents if the results of the Group’s research and development are satisfactory.

In April 2014, the Group’s products passed a test for one hundred and fifty one (151) substances on the Candidate List of Substances of Very High Concern (“SVHC”) for authorisation (published by European Chemicals Agency (“ECHA”) on and before 16 December 2013 in accordance with Regulation (EC) No. 1907/2006), which concerns, among others, registration, evaluation, authorisation and restriction of chemicals requirements on the use of chemical substances and their potential impacts on both human health and the environment. In addition, the Group’s products also fulfilled the requirements of EN71-3:2013 (under European Directive 2009/48/EC-Migration of certain elements (for scrapped-off toy material)) and passed the tests for 19 heavy metal elements. The abovementioned tests were performed by an independent testing and certification institution.

During the nine months ended 30 September 2014, the Group commenced its research and development on the use of impregnation fluid on coniferous (such as pine wood) and broad leaf (such as rubber wood) tree species with an intention to improve the technical specifications of these tree species and see if these wood materials can be used in the production of the Group’s Processed Wood Products.

In addition, the Group installed seven new sets of thermocompressors during the nine months ended 30 September 2014 and all of them have been put into operation. The use of these new thermocompressors further improved the quality of the Group’s products.

Other Business Developments

In 2013, the Group had five production lines for the production of Processed Finger Joint Wood Panels. As the Group intended to reduce the sales of Processed Finger Joint Wood Panels while focusing on the sales of Processed Wood Panels, the Group disposed of three out of the five production lines of Processed Finger Joint Wood Panels for about RMB5.9 million to one of the Group’s customers at a profit of RMB92,000.

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 RMB43.7 million or 13.5% from about RMB322.8 million for the nine months ended 30 September 2013 to about RMB366.5 million for the nine months ended 30 September 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 slightly decreased from about RMB3,717 per cubic meter for the nine months ended 30 September 2013 to about RMB3,692 per cubic meter for the nine months ended 30 September 2014. It was because of the increase in sales of less-shaved Processed Wood Panels which had a lower average selling price than traditional Processed Wood Panels, which was partially offset by the increase in the average selling price of Processed Wood Products as a result of the increase in quality and market recognition of our Processed Wood Panels. It was the intention of the Group to produce more less-shaved Processed Wood Panels which allows the Group to shorten its production cycle and increase production output and efficiency. The average selling prices of Processed Finger Joint Wood Panels increased from about RMB4,008 per cubic meter for the nine months ended 30 September 2013 to about RMB4,359 per cubic meter for the nine months ended 30 September 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 69,387 cubic meters for the nine months ended 30 September 2013 to 87,937 cubic meters for the nine months ended 30 September 2014.

TURNOVER BY SEGMENT

Analysis of turnover by segment is as follows:

	Three months ended 30 September						Nine months ended 30 September					
	2014			2013			2014			2013		
	Volume (m ³)	RMB'000	%	Volume (m ³)	RMB'000	%	Volume (m ³)	RMB'000	%	Volume (m ³)	RMB'000	%
Processed Wood Panels	40,339	140,734	96.3	25,972	103,439	83.1	87,937	324,693	88.6	69,387	257,923	79.9
Processed Finger Joint Wood Panels	1,226	5,343	3.7	5,076	21,110	16.9	9,595	41,825	11.4	16,182	64,862	20.1
	<u>41,565</u>	<u>146,077</u>	<u>100.0</u>	<u>31,048</u>	<u>124,549</u>	<u>100.0</u>	<u>97,532</u>	<u>366,518</u>	<u>100.0</u>	<u>85,569</u>	<u>322,785</u>	<u>100.0</u>

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2014	2013	2014	2013
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Processed Wood Panels	3,489	3,983	3,692	3,717
Processed Finger Joint Wood Panels	4,358	4,159	4,359	4,008
Overall average	3,514	4,011	3,758	3,772

Processed Wood Panels

Turnover from sales of Processed Wood Panels increased by about RMB66.8 million or 25.9% from about RMB257.9 million for the nine months ended 30 September 2013 to about RMB324.7 million for the nine months ended 30 September 2014. The 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 79.9% for the nine months ended 30 September 2013 to about 88.6% for the nine months ended 30 September 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, but offset by the increasing sales of less-shaved Processed Wood Panels which had a lower average selling price than traditional Processed Wood Panels, the Group recorded a slight decrease in average selling price from about RMB3,717 per cubic meter for the nine months ended 30 September 2013 to about RMB3,692 per cubic meter for the nine months ended 30 September 2014.

Processed Finger Joint Wood Panels

Turnover from sales of Processed Finger Joint Wood Panels decreased by about 35.6% from RMB64.9 million for the nine months ended 30 September 2013 to RMB41.8 million for the nine months ended 30 September 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, because 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 nine months ended 30 September 2014, there was a substantial decrease in sales of Processed Finger Joint Wood Panels.

Although the sales volume of Processed Finger Joint Wood Panels decreased substantially by about 6,587 cubic meters or 40.7% from about 16,182 cubic meters for the nine months ended 30 September 2013 to about 9,595 cubic meters for the nine months ended 30 September 2014, the Group was able to raise its average selling price from about RMB4,008 per cubic meter for the nine months ended 30 September 2013 to about RMB4,359 per cubic meter for the nine months ended 30 September 2014 due to the enhancement of the product's quality.

Cost of Sales

Cost of sales of the Group increased by about RMB32.0 million or 13.8%, from about RMB231.5 million for the nine months ended 30 September 2013 to about RMB263.5 million for the nine months ended 30 September 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 nine months ended 30 September 2014, the increase in the Group's total sales volume as discussed under the paragraph headed "Turnover" above, the increase in depreciation and the decrease in fuel cost.

Gross Profit

Gross profit of the Group increased by about 12.8% or RMB11.7 million from about RMB91.3 million for the nine months ended 30 September 2013 to about RMB103.0 million for the nine months ended 30 September 2014. The increase in gross profit of the Group was mainly attributable to the increase in the sales amount and average selling price of the Processed Wood Products, which was partially offset by the increase in cost of sales.

GROSS PROFIT MARGIN BY SEGMENT

The overall gross profit margin of the Group for the nine months ended 30 September 2013 and 2014 remained stable at about 28.3% and 28.1%, respectively. However, the overall gross profit margin decreased from about 32.8% for the three months ended 30 September 2013 to about 26.0% for the three months ended 30 September 2014. The decrease was a combined effect of increase in cost of wood materials and the substantial increase in the sales of less-shaved Processed Wood Panels which had a lower gross profit margin than traditional Processed Wood Panels.

Processed Wood Panels

Gross profit margin of Processed Wood Panels decreased from about 32.7% for the nine months ended 30 September 2013 to about 30.3% for the nine months ended 30 September 2014. Such decrease was mainly attributable to the increase in sales of less-shaved Processed Wood Panels which had a lower gross profit margin than the traditional Processed Wood Panels for the nine months ended 30 September 2014.

Processed Finger Joint Wood Panels

Gross profit margin of Processed Finger Joint Wood Panels for the nine months ended 30 September 2013 and 2014 remained stable at about 10.8% and 11.0%, respectively.

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 generally lower than that of Processed Wood Panels which resulted in a lower gross profit margin.

Other Revenue

Other revenue comprises rental income, income from government grants and interest income. Rental income represents income from leasing part of the Group's investment properties to two independent third parties who are customers of the Group. The increase in rental income by about RMB772,000 for the nine months ended 30 September 2014 as compared to the same period in 2013 was due to the lease of the Group's investment properties to a customer became effective from 1 April 2014, for a lease term of two years. Government grants increased by about RMB2,709,000 from RMB106,000 to RMB2,815,000 because the Group received more subsidies from Handan City Provincial Bureau of Forest (邯鄲市林業局), Wei County Bureau of Finance (魏縣財務局) and the Department of Finance of Hebei Province (河北省財政廳) for the construction of wood processing facilities, and the Group received tax refund from Wei County Local Taxation Bureau (魏縣地方稅務局) for the nine months ended 30 September 2014. In addition, the Group received an one-off bonus of RMB2 million from Handan City Provincial Bureau of Finance (邯鄲市財政局) for the successful listing of the Group in Hong Kong. Interest income represents income from the Group's bank deposits. The Group's interest income increased from about RMB40,000 for the nine months ended 30 September 2013 to about RMB1,430,000 for the nine months ended 30 September 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 nine months ended 30 September 2014.

Other Net Income

The Group's other net income for the nine months ended 30 September 2014 principally represents the gain from sales of scrap materials and gain on disposal of property, plant and equipment.

Selling Expenses

The Group's selling expenses increased by about 10.0% or RMB0.3 million from about RMB3.0 million for the nine months ended 30 September 2013 to about RMB3.3 million for the nine months ended 30 September 2014. Such increase was mainly due to a significant increase in rental expenses for the Group's new branch offices being established in Beijing, Shanghai and Chengdu which commenced operation in the third quarter of 2014.

Administrative Expenses

The Group's administrative expenses increased by about 8.5% or RMB3.4 million from about RMB40.2 million for the nine months ended 30 September 2013 to about RMB43.6 million for the nine months ended 30 September 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 RMB3.4 million from about RMB20.3 million for the nine months ended 30 September 2013 to about RMB23.7 million for the nine months ended 30 September 2014 as the Group consumed more research raw materials for its research and development projects for the nine months ended 30 September 2014 than the same period in 2013. The staff costs increased from about RMB4.3 million for the nine months ended 30 September 2013 to about RMB5.8 million for the nine months ended 30 September 2014 which was mainly due to the increase in number of management staff and an increase in the remuneration of senior management after the Listing.

The increase in administrative expenses was partially offset by the decrease in the professional fees incurred in relation to the preparation of the Group's listing in last year.

Finance Costs

The Group's finance cost decreased substantially from about RMB13.9 million for the nine months ended 30 September 2013 to about RMB8.2 million for the nine months ended 30 September 2014. The decrease was mainly attributable to the decrease in interest expense and related bank and finance charges by about RMB8.4 million for the nine months ended 30 September 2014 as a result of the repayment of bank loans and other loans. Such decrease was partially off-set by an increase in exchange loss of about RMB2.7 million arising from the Group's RMB deposit after a devaluation of RMB during the nine months ended 30 September 2014.

Income Tax Expenses

The Group's income tax expenses increased from about RMB4.9 million for the nine months ended 30 September 2013 to about RMB7.7 million for the nine months ended 30 September 2014. The increase was primarily attributable to the increase in profit before taxation from about RMB35.2 million for the nine months ended 30 September 2013 to about RMB53.9 million for the nine months ended 30 September 2014.

Profit for the Period

As a combined result of the factors discussed above, the Group's profit increased from about RMB30.2 million for the nine months ended 30 September 2013 to about RMB46.2 million for the nine months ended 30 September 2014. In addition, the Group's net profit margin increased from about 9.4% for the nine months ended 30 September 2013 to about 12.6% for the nine months ended 30 September 2014. Such increase was mainly due to the increase in the Group's gross profit, the increase in other revenue and the decrease in finance costs for the nine months ended 30 September 2014.

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

As at 30 September 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 (<i>Note</i>)	Interests in controlled corporation	Long position	673,250,000	67.3%

(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 (<i>Note</i>)	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 673,250,000 Shares held by Brilliant Plan under SFO.

Save as disclosed above, as at 30 September 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.

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

As at 30 September 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	673,250,000 Shares	67.3%

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 30 September 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.

OUTLOOK

The Group expected that people's demand for high-quality solid wood furniture will be rising in the coming year, thus driving a growth in the demand for wood materials.

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.

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 30 September 2014.

COMPETING INTEREST OF DIRECTORS, CONTROLLING SHAREHOLDERS AND THEIR RESPECTIVE CLOSE ASSOCIATES

As at 30 September 2014, none of the Directors, controlling shareholders of the Company or any of or their respective close 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 30 September 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 30 September 2014.

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 30 September 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 30 September 2014.

DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 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.

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 nine months ended 30 September 2014.

By order of the Board
China Wood Optimization (Holding) Limited
Yim Tsun
Chairlady

Hong Kong, 12 November 2014

As at the date of this announcement, 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 announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief, (i) the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive; and (ii) there are no other matters the omission of which would make any statement herein or in this announcement misleading. All opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least seven days from the date of its posting. This announcement will also be published on the website of the Company at www.chinawood.com.hk.

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