



AMS Wood
Optimization

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



2015
FIRST QUARTERLY REPORT

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

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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 2015, operating results of the Group were as follows:

- Turnover reached about RMB91.8 million (2014: RMB81.4 million), representing an increase of 12.8% as compared to the same period of previous financial year;
- Profit for the three months ended 31 March 2015 amounted to about RMB5.9 million (2014: RMB6.4 million), representing a decrease of 7.8% as compared to the same period of previous financial year;
- Basic and diluted earnings per share for the three months ended 31 March 2015 based on weighted average number of ordinary shares of 1,000,000,000 shares (2014: 986,111,000 shares) in issue was RMB0.6 cent (2014: RMB0.7 cent); and
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2015 (2014: Nil).

Unaudited Consolidated Statement of Profit or Loss

For the three months ended 31 March 2015
(Expressed in Renminbi ("RMB"))

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 2015 together with the comparative unaudited figures for the corresponding period in 2014 as follows:

	Note	Three months ended 31 March	
		2015 RMB'000	2014 RMB'000
Turnover	4	91,807	81,418
Cost of sales		(75,966)	(57,040)
Gross profit	4	15,841	24,378
Other revenue		838	470
Other net income		146	26
Selling expenses		(1,102)	(878)
Administrative expenses		(7,953)	(12,497)
Profit from operations		7,770	11,499
Finance costs	5(a)	(734)	(3,847)
Profit before taxation	5	7,036	7,652
Income tax	6	(1,136)	(1,224)
Profit attributable to equity shareholders of the Company for the period		5,900	6,428
Earnings per share			
— Basic and diluted (RMB)	7	0.006	0.007

Unaudited Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the three months ended 31 March 2015
(Expressed in RMB)

	Three months ended	
	31 March	
	2015	2014
	RMB'000	RMB'000
Profit for the period	5,900	6,428
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	332	1,315
Total comprehensive income attributable to equity shareholders of the Company for the period	6,232	7,743

Unaudited Consolidated Statement of Changes in Equity

For the three months ended 31 March 2015
(Expressed in RMB)

	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 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	1,967	180,641	-	-	-	-	182,608
Balance at 31 March 2014 and 1 April 2014	7,921	259,976	30	13,225	1,492	109,019	391,663
Changes in equity for the nine months ended 31 December 2014:							
Profit for the period	-	-	-	-	-	57,300	57,300
Other comprehensive income	-	-	-	-	(242)	-	(242)
Total comprehensive income	-	-	-	-	(242)	57,300	57,058
Appropriation to reserves	-	-	-	6,392	-	(6,392)	-
Balance at 31 December 2014	7,921	259,976	30	19,617	1,250	159,927	448,721
Balance at 1 January 2015	7,921	259,976	30	19,617	1,250	159,927	448,721
Changes in equity for the three months ended 31 March 2015:							
Profit for the period	-	-	-	-	-	5,900	5,900
Other comprehensive income	-	-	-	-	332	-	332
Total comprehensive income	-	-	-	-	332	5,900	6,232
Balance at 31 March 2015	7,921	259,976	30	19,617	1,582	165,827	454,953

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 2015 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 2015 (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 2014 annual financial statements of the Group, except for accounting policy changes that are expected to be reflected in the 2015 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 2014 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:

- *Annual Improvements to IFRSs 2010–2012 Cycle*
- *Annual Improvements to IFRSs 2011–2013 Cycle*

None of these developments have had a material effect 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 2015		
	Processed Wood Panels RMB'000	Processed Finger Joint Wood Panels RMB'000	Total RMB'000
Turnover from external customers and reportable segment turnover	86,839	4,968	91,807
Reportable segment gross profit	15,585	256	15,841

	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

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	
	2015	2014
	RMB'000	RMB'000
Interest on bank and other loans	1,069	2,601
Bank charges and other finance costs	12	134
Total borrowing costs	1,081	2,735
Net foreign exchange (gain)/loss	(347)	1,112
	734	3,847

(b) Staff costs:

	Three months ended	
	31 March	
	2015	2014
	RMB'000	RMB'000
Salaries, wages and other benefits	4,363	4,665
Contributions to defined contribution retirement schemes	445	528
	4,808	5,193

(c) Other items:

	Three months ended	
	31 March	
	2015	2014
	RMB'000	RMB'000
Depreciation and amortisation	4,696	4,732
Operating lease charges in respect of plant and buildings	704	307
Research and development costs (including costs relating to staff costs disclosed in Note 5(b))	2,218	6,059
Interest income	(205)	(179)
Cost of inventories	75,966	57,040

Notes to the Unaudited Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

6 INCOME TAX

	Three months ended 31 March	
	2015	2014
	RMB'000	RMB'000
Current taxation:		
— The People's Republic of China (the "PRC") Corporate Income Tax	932	1,174
Deferred taxation:		
— Origination and reversal of temporary differences	204	50
	1,136	1,224

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 2015 (three months ended 31 March 2014: 16.5%).

The subsidiaries of the Group established in the PRC are subject to the PRC Corporate Income Tax rate of 25% for the three months ended 31 March 2015 (three months ended 31 March 2014: 25%). One of the subsidiaries 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. This subsidiary is in the process of applying the same preferential PRC Corporate Income Tax rate of 15% for the calendar years from 2015 to 2017, whereby the directors of the Company consider this subsidiary has satisfied the conditions of being an advanced and new technology enterprise according to the relevant tax rules and regulations. 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 2015 is calculated based on the unaudited profit attributable to equity shareholders of the Company of RMB5,900,000 (three months ended 31 March 2014: RMB6,428,000) and the weighted average of 1,000,000,000 ordinary shares (three months ended 31 March 2014: 986,111,000 ordinary shares) in issue during the period, calculated as follows:

	Three months ended 31 March	
	2015 '000	2014 '000
Issued ordinary shares at 1 January	1,000,000	750,000
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	1,000,000	986,111

(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 2015 and 2014.

8 DIVIDENDS

The directors of the Company do not recommend the payment of a dividend for the three months ended 31 March 2015 (three months ended 31 March 2014: RMBNil).

Management Discussions and Analysis

BUSINESS REVIEW

For the three months ended 31 March 2015, 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, 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

During the three months ended 31 March 2015, the Group’s sales offices located in Beijing, Shanghai and Chengdu had commenced operations. These newly established sales offices allowed us to provide better after sales services to our existing customers and to follow-up with the needs of our new customers which were mainly gained through participating in exhibitions.

Management Discussions and Analysis

In order to encourage existing and new customers to place more orders during the low seasons in January and February 2015 and to encourage our customers to exhibit their new products made with the Group's Processed Wood Products in major exhibitions held in March 2015, the Group offered its customers discount of about 8% on the average selling prices of Processed Wood Products for orders placed in January and February 2015. The sales promotion has ended in February 2015 and from March 2015 onward, the average selling prices of the Processed Wood Products resumed to normal level. This sales strategy successfully boosted turnover and expanded the customer base, paving the way for future development. Due to the adoption of this sales and marketing promotion, the Group recorded an increase in turnover by about 12.8%, but a decrease in gross profit margin by about 12.6% for the three months ended 31 March 2015, as compared to the same period in 2014.

New Production Plant and Change in Use of Proceeds

On 29 December 2014, the Group entered into an agreement with the administration committee of Huaian Industrial Zone in Huaian City, Jiangsu Province for an investment to build a new production plant (the "Huaian Factory") in the Huaian Industrial Zone. Occupying an area of approximately 140,526 square meters, the new production plant of the Group will be mainly used to produce Processed Wood Products. The first phase registered capital of the new production plant amounted to USD35.0 million. The plant is scheduled to be completed and will commence production in the fourth quarter of 2015. It is expected to double the Group's current production capacity.

On 18 March 2015, the Group established a new wholly-owned subsidiary, namely, Jiangsu AMS Wood Industry Company Limited (江蘇愛美森木業有限公司) ("Jiangsu AMS") in Huaian, Jiangsu Province, the PRC with a registered capital amounted up to RMB220.5 million to build the new Huaian Factory. The construction of the new Huaian Factory is scheduled to be completed and will commence production in the fourth quarter of 2015. The new Huaian Factory will emphasise on energy conservation, production efficiency and high efficiency in the design of production processes and will apply latest technology in place of some labour-intensive processes so as to reduce labour costs.

Reference is also made to an announcement of the Company dated 9 January 2015 relating to the change in use of proceeds. The Group has decided to change in use of part of the net proceeds of about HK\$31.3 million, which was previously planned for the acquisitions of a chemical factory and a wood processing factory, to finance the establishment of the Huaian Factory.

Management Discussions and Analysis

FINANCIAL REVIEW

Turnover

The Group recorded an increase in its turnover by about RMB10.4 million or 12.8% from about RMB81.4 million for the three months ended 31 March 2014 to about RMB91.8 million for the three months ended 31 March 2015. The increase in turnover was mainly attributable to the increase in turnover of Processed Wood Panels. However, the average selling prices of Processed Wood Panels decreased from about RMB3,977 per cubic meter in the first quarter of 2014 to about RMB3,311 per cubic meter in the first quarter of 2015. The average selling prices of Processed Finger Joint Wood Panels also decreased from about RMB4,359 per cubic meter in the first quarter of 2014 to about RMB4,133 per cubic meter in the first quarter of 2015. The decrease in the average selling prices was mainly due to the sales and marketing promotion conducted in January and February 2015 and the increase in sales of less-shaved Processed Wood Panels which had a lower average selling price than the Group's traditional Processed Wood Panels. In order to encourage the Group's customers to place more orders on the Group's Processed Wood Panels during the low seasons and to exhibit their new products made with the Group's Processed Wood Products in major exhibitions held in March 2015, the Group offered its customers discount of about 8% on the average selling prices of Processed Wood Products for orders placed in January and February 2015. As a result, the total volume of Processed Wood Panels sold also increased from about 16,603 cubic meters for the three months ended 31 March 2014 to about 26,230 cubic meters for the three months ended 31 March 2015.

TURNOVER BY SEGMENT

Analysis of turnover by segment is as follows:

	Three months ended 31 March					
	2015			2014		
	Volume (m ³)	RMB'000	%	Volume (m ³)	RMB'000	%
Processed Wood Panels	26,230	86,839	94.6	16,603	66,022	81.1
Processed Finger Joint Wood Panels	1,202	4,968	5.4	3,532	15,396	18.9
	27,432	91,807	100.0	20,135	81,418	100.0

Analysis of average selling price per cubic meter by segment is as follows:

	Three months ended 31 March	
	2015 RMB	2014 RMB
Processed Wood Panels	3,311	3,977
Processed Finger Joint Wood Panels	4,133	4,359
Overall average	3,347	4,044

Management Discussions and Analysis

Processed Wood Panels

Turnover from sales of Processed Wood Panels increased substantially by about RMB20.8 million or 31.5% from about RMB66.0 million for the three months ended 31 March 2014 to about RMB86.8 million for the three months ended 31 March 2015. The substantial increase in sales of Processed Wood Panels was primarily due to the increase in demand of the Group's Processed Wood Panels as a result of the sales and marketing promotion conducted in January and February 2015. The percentage of sales of Processed Wood Panels increased from about 81.1% for the three months ended 31 March 2014 to about 94.6% for the three months ended 31 March 2015 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 and the production of Processed Wood Panels requires lesser production process that allows the Group to utilise its production capacity more efficiently.

Due to the sales and marketing promotion conducted in January and February 2015 and the increase in sales of less-shaved Processed Wood Panels which had a lower average selling price than the Group's traditional Processed Wood Panels, the average selling price of Processed Wood Panels decreased from about RMB3,977 per cubic meter for the three months ended 31 March 2014 to about RMB3,311 per cubic meter for the three months ended 31 March 2015.

Processed Finger Joint Wood Panels

Turnover from the sales of Processed Finger Joint Wood Panels decreased substantially by about 67.5% from RMB15.4 million for the three months ended 31 March 2014 to RMB5.0 million for the three months ended 31 March 2015. 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 sales of Processed Wood Panels had a higher profit margin and 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 2015, there was a decrease in sales of Processed Finger Joint Wood Panels. As a result, the sales volume of Processed Finger Joint Wood Panels decreased by about 2,330 cubic meters or 66.0% from about 3,532 cubic meters for the three months ended 31 March 2014 to about 1,202 cubic meters for the three months ended 31 March 2015.

The average selling price of the Group's Processed Finger Joint Wood Panels decreased from about RMB4,359 per cubic meter for the three months ended 31 March 2014 to about RMB4,133 per cubic meter for the three months ended 31 March 2015 was principally a result of the sales and marketing promotion conducted in January and February 2015.

Cost of Sales

Cost of sales of the Group increased by about RMB19.0 million or 33.3%, from about RMB57.0 million for the three months ended 31 March 2014 to about RMB76.0 million for the three months ended 31 March 2015. The increase was mainly a result of the increase in the Group's total sales volume as discussed under the paragraph headed "Turnover" above.

Management Discussions and Analysis

Gross Profit

Gross profit of the Group decreased by about 35.2% or RMB8.6 million from about RMB24.4 million for the three months ended 31 March 2014 to about RMB15.8 million for the three months ended 31 March 2015. The decrease in gross profit of the Group was mainly attributable to the decrease in average selling price and the increase in average cost of wood materials, which was partially offset by the increase in sales volume.

GROSS PROFIT MARGIN BY SEGMENT

The overall gross profit margin of the Group decreased from about 29.9% for the three months ended 31 March 2014 to about 17.3% for the three months ended 31 March 2015. Such decrease was mainly attributable to the decrease in the average selling price of the Group's Processed Wood Products by about 17.2% for the three months ended 31 March 2015 as compared with its average selling price thereof for the three months ended 31 March 2014, and the increase in average cost of wood materials. The decrease in the average selling price of the Group's Processed Wood Products was mainly a result of the sales and marketing promotion conducted in January and February 2015.

Processed Wood Panels

Gross profit margin of Processed Wood Panels decreased from about 33.2% for the three months ended 31 March 2014 to about 17.9% for the three months ended 31 March 2015. Such decrease was mainly attributable to the sales and marketing promotion conducted in January and February 2015, the increase in average cost of wood materials and the increase in sales of less-shaved Processed Wood Panels which had a lower gross profit margin than traditional Processed Wood Panels.

Processed Finger Joint Wood Panels

Gross profit margin of Processed Finger Joint Wood Panels decreased substantially from about 15.8% for the three months ended 31 March 2014 to about 5.2% for the three months ended 31 March 2015. Such decrease was mainly attributable to the decrease in its average selling price and the increase in average cost of wood materials.

The Group's Processed Finger Joint Wood Panels have a lower gross profit margin than that of the Processed Wood Panels because the Processed Finger Joint Wood Panels 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 comprises rental income, income from government grants and interest income. Other revenue of the Group increased by about RMB368,000 from about RMB470,000 for the three months ended 31 March 2014 to about RMB838,000 for the three months ended 31 March 2015. The increase was mainly due to the increase in rental income by about RMB265,000 for the three months ended 31 March 2015 as compared to the same period in 2014. It was because the Group leased its investment properties to 2 customers in the first quarter of 2015 but there was only one customer entered into the lease agreement with the Group in the same period in 2014.

Management Discussions and Analysis

Other Net Income

The Group's other net income for the three months ended 31 March 2015 principally represents the gain from sales of scrap materials.

Selling Expenses

The Group's selling expenses increased by about 25.5% or RMB224,000 from about RMB878,000 for the three months ended 31 March 2014 to about RMB1,102,000 for the three months ended 31 March 2015. Such increase was principally due to the increase in rental expenses as a result of the establishment of the sales offices located in Beijing, Shanghai and Chengdu.

Administrative Expenses

The Group's administrative expenses decreased by about 36.0% or RMB4.5 million from about RMB12.5 million for the three months ended 31 March 2014 to about RMB8.0 million for the three months ended 31 March 2015. The decrease was principally due to the decrease in research and development expenses and professional fees. The Group's research and development expenses decreased by about RMB3.9 million from about RMB6.1 million for the three months ended 31 March 2014 to about RMB2.2 million for the three months ended 31 March 2015 as the Group consumed less research raw materials for its research and development projects for the three months ended 31 March 2015 than the same period in 2014. The professional fees decreased from about RMB1.9 million for the three months ended 31 March 2014 to about RMB0.9 million for the three months ended 31 March 2015 which was mainly due to the decrease in the professional fees incurred in relation to the preparation of the Group's listing in 2014.

Finance Costs

The Group's finance costs decreased from about RMB3.8 million for the three months ended 31 March 2014 to about RMB0.7 million for the three months ended 31 March 2015. The decrease was mainly attributable to the decrease in interest expense and related bank and finance charges by about RMB1.7 million for the three months ended 31 March 2015 as a result of the repayment of bank loans during the nine months ended 31 December 2014. In addition, the Group's exchange loss decreased by about RMB1.4 million and recorded an exchange gain of about RMB0.3 million. There was an exchange loss of about RMB1.1 million recorded for the same period in 2014 mainly arising from the conversion of HK\$ into RMB.

Income Tax Expenses

The Group's income tax expenses slightly decreased from about RMB1.2 million for the three months ended 31 March 2014 to about RMB1.1 million for the three months ended 31 March 2015. The decrease was primarily attributable to the decrease in profit before taxation from about RMB7.7 million for the three months ended 31 March 2014 to about RMB7.0 million for the three months ended 31 March 2015.

Profit for the Period

As a combined result of the factors discussed above, the Group's profit for the period decreased from about RMB6.4 million for the three months ended 31 March 2014 to about RMB5.9 million for the three months ended 31 March 2015. In addition, the Group's net profit margin decreased from about 7.9% for the three months ended 31 March 2014 to about 6.4% for the three months ended 31 March 2015. Such decrease was mainly due to the decrease in the Group's gross profit margin and partially offset by the decrease in the administrative expenses and finance costs for the three months ended 31 March 2015.

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 2015, 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	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 (Note)	Beneficial owner	100	100%

Note: The entire issued share capital of Brilliant Plan Holdings Limited ("Brilliant Plan") 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 31 March 2015, 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 at 31 March 2015, the following persons (other than Directors or chief executives of the Company) were interested in 5% or more of the issued share capital of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the GEM Listing Rules on the Stock Exchange:

Name of Shareholder	Nature of interest	Number of Shares held	Approximate percentage of shareholding in the Company
Brilliant Plan Holdings Limited (Note)	Beneficial Owner	673,250,000	67.3%

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 the Shares held by Brilliant Plan under the SFO.

Save as disclosed above, as at 31 March 2015, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

OUTLOOK

The Group intends to increase its production capacity and further promote the market recognition of its Processed Wood Products in the PRC. To achieve this, the Group will complete the construction of its new Huaian Factory located in Huaian, Jiangsu Province and expects to commence its production in the fourth quarter of this year, expand the application spectrum and improve the quality of its Processed Wood Products, and expand its sales volume through its sales offices established in Beijing, Shanghai and Chengdu.

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 during the three months ended 31 March 2015.

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

As at 31 March 2015, none of the Directors, controlling shareholders of the Company or any of 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.

Management Discussions and Analysis

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 2015.

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 during the three months ended 31 March 2015.

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, during the three months ended 31 March 2015, 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 during the three months ended 31 March 2015.

DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2015 (2014: 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.

Management Discussions and Analysis

AUDIT COMMITTEE

The Company has established its audit committee 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 2015.

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

Hong Kong, 11 May 2015

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 this report shall prevail over the Chinese text.