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

INTERIM REPORT

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 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 six months ended 30 June 2015, operating results of the Group were as follows:

— Revenue for the six months ended 30 June 2015 reached about RMB240.2 million (2014: RMB220.4 million), representing an increase of 9.0% as compared to the same period of previous financial year;

— Profit for the six months ended 30 June 2015 amounted to about RMB24.5 million (2014: RMB24.4 million), representing an increase of 0.4% as compared to the same period of previous financial year;

— Basic and diluted earnings per share for the six months ended 30 June 2015 based on weighted average number of ordinary shares of about 1,000,000,000 shares (2014: 993,094,000 shares) in issue was RMB2.4 cents (2014: RMB2.5 cents); and

— The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2015 (2014: Nil).

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2015 — unaudited
(Expressed in Renminbi ("RMB"))

		Three months ended 30 June		Six months ended 30 June	
		2015	2014	**2015**	2014
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue	4	**148,373**	139,023	**240,180**	220,441
Cost of sales		**(109,173)**	(98,323)	**(185,139)**	(155,363)
Gross profit	4	**39,200**	40,700	**55,041**	65,078
Other income		**1,821**	1,792	**2,805**	2,288
Selling expenses		**(1,992)**	(1,691)	**(3,094)**	(2,569)
Administrative expenses		**(16,348)**	(16,620)	**(24,301)**	(29,117)
Profit from operations		**22,681**	24,181	**30,451**	35,680
Finance costs	5(a)	**(883)**	(3,121)	**(1,617)**	(6,968)
Profit before taxation	5	**21,798**	21,060	**28,834**	28,712
Income tax	6	**(3,229)**	(3,136)	**(4,365)**	(4,360)
Profit attributable to equity shareholders of the Company for the period		**18,569**	17,924	**24,469**	24,352
Earnings per share					
— Basic and diluted (RMB)	7	**0.019**	0.018	**0.024**	0.025

The notes on pages 8 to 25 form part of this interim financial report.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2015 — unaudited
(Expressed in RMB)

	Three months ended 30 June		Six months ended 30 June	
	2015	2014	**2015**	2014
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit for the period	**18,569**	17,924	**24,469**	24,352
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	**(396)**	318	**(64)**	1,633
Total comprehensive income attributable to equity shareholders of the Company for the period	**18,173**	18,242	**24,405**	25,985

The notes on pages 8 to 25 form part of this interim financial report.

Consolidated Statement of Financial Position

At 30 June 2015 — unaudited
(Expressed in RMB)

	Note	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Non-current assets			
Property, plant and equipment	8	**233,135**	176,244
Investment properties	9	**15,671**	16,131
Lease prepayments	10	**51,079**	15,649
Intangible asset		**33**	48
Deferred tax assets	17	**984**	1,132
		300,902	209,204
Current assets			
Inventories	11	**71,664**	82,384
Trade receivables	12	**16,730**	10,158
Prepayments, deposits and other receivables		**22,518**	16,586
Prepaid income tax		**1,086**	931
Cash and cash equivalents	13	**185,204**	202,079
		297,202	312,138
Current liabilities			
Trade payables	14	**1,209**	181
Receipts in advance		**379**	524
Accrued expenses and other payables	15	**63,004**	9,216
Bank loans	16(a)	**56,000**	58,000
		120,592	67,921
Net current assets		**176,610**	244,217
Total assets less current liabilities		**477,512**	453,421
Non-current liabilities			
Deferred income		**4,386**	4,700
NET ASSETS		**473,126**	448,721
CAPITAL AND RESERVES	18		
Share capital		**7,921**	7,921
Reserves		**465,205**	440,800
TOTAL EQUITY		**473,126**	448,721

The notes on pages 8 to 25 form part of this interim financial report.

Consolidated Statement of Changes In Equity

For the six months ended 30 June 2015 — unaudited
(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 six months ended 30 June 2014:							
Profit for the period	–	–	–	–	–	24,352	24,352
Other comprehensive income	–	–	–	–	1,633	–	1,633
Total comprehensive income	–	–	–	–	1,633	24,352	25,985
Issuance of shares by way of placing	1,967	180,641	–	–	–	–	182,608
Balance at 30 June 2014 and 1 July 2014	7,921	259,976	30	13,225	1,810	126,943	409,905
Changes in equity for the six months ended 31 December 2014:							
Profit for the period	–	–	–	–	–	39,376	39,376
Other comprehensive income	–	–	–	–	(560)	–	(560)
Total comprehensive income	–	–	–	–	(560)	39,376	38,816
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 six months ended 30 June 2015:							
Profit for the period	**–**	**–**	**–**	**–**	**–**	**24,469**	**24,469**
Other comprehensive income	**–**	**–**	**–**	**–**	**(64)**	**–**	**(64)**
Total comprehensive income	**–**	**–**	**–**	**–**	**(64)**	**24,469**	**24,405**
Balance at 30 June 2015	**7,921**	**259,976**	**30**	**19,617**	**1,186**	**184,396**	**473,126**

The notes on pages 8 to 25 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2015 — unaudited
(Expressed in RMB)

	Note	Six months ended 30 June	
		2015	2014
		RMB'000	RMB'000
Operating activities			
Cash generated from operations		**36,470**	34,839
Income tax paid		**(4,372)**	(5,818)
Net cash generated from operating activities		**32,098**	29,021
Investing activities			
Payments for purchase of property, plant and equipment and land use right		**(45,270)**	(7,028)
Other cash flows arising from investing activities		**625**	871
Net cash used in investing activities		**(44,645)**	(6,157)
Financing activities			
Repayment of bank and other loans		**(2,000)**	(98,660)
Proceeds from issuance of shares by way of placing		**–**	196,700
Payments for share issuance expenses		**–**	(14,092)
Other cash flows arising from financing activities		**(2,327)**	(4,100)
Net cash (used in)/generated from financing activities		**(4,327)**	79,848
Net (decrease)/increase in cash and cash equivalents		**(16,874)**	102,712
Cash and cash equivalents at 1 January	13	**202,079**	67,788
Effect of foreign exchange rate changes		**(1)**	1,674
Cash and cash equivalents at 30 June	13	**185,204**	172,174

The notes on pages 8 to 25 form part of this interim financial report.

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 interim financial statements of the Company as at and for the six months ended 30 June 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

This interim financial report 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, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the "IASB"). It was authorised for issue on 13 August 2015.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2014 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2015 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2014 annual financial statements. The condensed consolidated interim financial statements 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 interim financial report is unaudited. The interim financial report, which comprises the consolidated statement of financial position of the Company as of 30 June 2015 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes, has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410 ("HKSRE 2410"), *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. The consolidated statement of profit or loss and statement of profit or loss and other comprehensive income for the three month periods ended 30 June 2015 and 2014 and the related explanatory notes have not been reviewed in accordance with HKSRE 2410. KPMG's independent review report to the board of directors of the Company is included on page 26.

2 BASIS OF PREPARATION (Continued)

The financial information relating to the financial year ended 31 December 2014 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2014 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 13 March 2015.

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued the following 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 interim financial report:

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

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 SEGMENT REPORTING

The Group manages its businesses by products. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments: Processed Wood Panels and Processed Finger Joint Wood Panels. No operating segments have been aggregated to form the following reportable segments.

- Processed Wood Panels: this segment produces and sells wooden panels which have gone through the Group's self-developed wood processing procedure, and also the shaving and sanding in accordance with the specifications of the customers.
- Processed Finger Joint Wood Panels: this segment sells wooden panels produce from the pressing and laminating cut-offs arise in the trimming process of the Processed Wood Panels.

4 SEGMENT REPORTING (Continued)

(i) Segment results

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the six months ended 30 June 2015 and 2014. The Group's other operating expenses, such as selling and administrative expenses, and assets and liabilities, including the sharing of technical know-how, are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income and interest expenses is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance is set out below.

	Six months ended 30 June 2015		
	Processed Wood Panels RMB'000	**Processed Finger Joint Wood Panels RMB'000**	**Total RMB'000**
Revenue from external customers and reportable segment revenue	**229,993**	**10,187**	**240,180**
Reportable segment gross profit	**53,083**	**1,958**	**55,041**

	Six months ended 30 June 2014		
	Processed Wood Panels RMB'000	Processed Finger Joint Wood Panels RMB'000	Total RMB'000
Revenue from external customers and reportable segment revenue	183,959	36,482	220,441
Reportable segment gross profit	61,008	4,070	65,078

4 SEGMENT REPORTING (Continued)

(i) Segment results (Continued)

	Three months ended 30 June 2015 Processed Wood Panels RMB'000	 Processed Finger Joint Wood Panels RMB'000	 Total RMB'000
Revenue from external customers and reportable segment revenue	**143,154**	**5,219**	**148,373**
Reportable segment gross profit	**37,498**	**1,702**	**39,200**

	Three months ended 30 June 2014 Processed Wood Panels RMB'000	 Processed Finger Joint Wood Panels RMB'000	 Total RMB'000
Revenue from external customers and reportable segment revenue	117,937	21,086	139,023
Reportable segment gross profit	39,061	1,639	40,700

(ii) Geographic information

The Group's revenue is substantially generated from the sale of wooden products to customers in the People's Republic of China (the "PRC"). The Group's operating assets are substantially situated in the PRC. Accordingly, no segment analysis based on geographical locations of the customers and assets is provided.

5 PROFIT BEFORE TAXATION

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

(a) Finance costs:

	Three months ended 30 June		Six months ended 30 June	
	2015	2014	**2015**	2014
	RMB'000	RMB'000	**RMB'000**	RMB'000
Interest on bank and other loans	**1,170**	1,284	**2,239**	3,885
Bank charges and other finance costs	**9**	8	**21**	142
Total borrowing costs	**1,179**	1,292	**2,260**	4,027
Net foreign exchange (gain)/loss	**(296)**	1,829	**(643)**	2,941
	883	3,121	**1,617**	6,968

(b) Staff costs:

	Three months ended 30 June		Six months ended 30 June	
	2015	2014	**2015**	2014
	RMB'000	RMB'000	**RMB'000**	RMB'000
Salaries, wages and other benefits	**4,965**	5,969	**9,328**	10,634
Contributions to defined contribution retirement schemes	**546**	691	**991**	1,219
	5,511	6,660	**10,319**	11,853

5 PROFIT BEFORE TAXATION (Continued)

(c) Other items:

	Three months ended 30 June		Six months ended 30 June	
	2015	2014	**2015**	2014
	RMB'000	RMB'000	**RMB'000**	RMB'000
Depreciation and amortisation	**4,706**	4,677	**9,402**	9,409
Net loss/(gain) on disposal of property, plant and equipment	**28**	(92)	**28**	(92)
Operating lease charges in respect of plant and buildings	**750**	846	**1,454**	1,153
Research and development costs (including costs relating to staff costs disclosed in Note 5(b))	**7,873**	8,988	**10,091**	15,047
Interest income	**(229)**	(586)	**(434)**	(765)
Cost of inventories (Note 11(b))	**109,173**	98,323	**185,139**	155,363

6 INCOME TAX

	Three months ended 30 June		Six months ended 30 June	
	2015	2014	**2015**	2014
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current taxation:				
— The PRC Corporate Income Tax	**3,285**	3,240	**4,217**	4,414
Deferred taxation (Note 17):				
— Origination and reversal of temporary differences	**(56)**	(104)	**148**	(54)
	3,229	3,136	**4,365**	4,360

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 six months ended 30 June 2015 (six months ended 30 June 2014: 16.5%). No provision for Hong Kong Profits Tax has been made, as neither the Company nor the subsidiary of the Group incorporated in Hong Kong have assessable profits which are subject to Hong Kong Profits Tax for the six months ended 30 June 2015 (six months ended 30 June 2014: RMBNil).

6 INCOME TAX (Continued)

The subsidiaries of the Group established in the PRC are subject to the PRC Corporate Income Tax rate of 25% for the six months ended 30 June 2015 (six months ended 30 June 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, and therefore adopt 15% as the preferential PRC Corporate Income Tax rate for the six months ended 30 June 2015 (six months ended 30 June 2014: 15%). 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 six months ended 30 June 2015 is calculated based on the profit attributable to equity shareholders of the Company of RMB24,469,000 (six months ended 30 June 2014: RMB24,352,000) and the weighted average of 1,000,000,000 ordinary shares (six months ended 30 June 2014: 993,094,000 ordinary shares) in issue during the interim period, calculated as follows:

	Three months ended 30 June		Six months ended 30 June	
	2015	2014	**2015**	2014
	'000	'000	**'000**	'000
Issued ordinary shares at 1 April/ 1 January	**1,000,000**	1,000,000	**1,000,000**	750,000
Effect of shares issued by way of placing on 6 January 2014	**–**	–	**–**	243,094
Weighted average number of ordinary shares at 30 June	**1,000,000**	1,000,000	**1,000,000**	993,094

(a) 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 six months ended 30 June 2015 and 2014.

8 PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:					
At 1 January 2014	108,285	122,583	5,536	3,075	239,479
Additions	–	1,375	3,055	2,467	6,897
Transfer in/(out)	1,705	3,837	–	(5,542)	–
Reclassification to investment properties	(9,783)	–	–	–	(9,783)
Disposals	–	(7,380)	–	–	(7,380)
At 31 December 2014	100,207	120,415	8,591	–	229,213
Accumulated depreciation:					
At 1 January 2014	(11,017)	(25,853)	(1,817)	–	(38,687)
Charge for the year	(4,564)	(11,822)	(1,067)	–	(17,453)
Reclassification to investment properties	1,665	–	–	–	1,665
Written back on disposal	–	1,506	–	–	1,506
At 31 December 2014	(13,916)	(36,169)	(2,884)	–	(52,969)
Net book value:					
At 31 December 2014	86,291	84,246	5,707	–	176,244
Cost:					
At 1 January 2015	**100,207**	**120,415**	**8,591**	**–**	**229,213**
Additions	**37**	**1,438**	**200**	**64,170**	**65,845**
Disposals	**–**	**(321)**	**–**	**–**	**(321)**
At 30 June 2015	**100,244**	**121,532**	**8,791**	**64,170**	**294,737**
Accumulated depreciation:					
At 1 January 2015	**(13,916)**	**(36,169)**	**(2,884)**	**–**	**(52,969)**
Charge for the period	**(2,247)**	**(5,881)**	**(635)**	**–**	**(8,763)**
Written back on disposal	**–**	**130**	**–**	**–**	**130**
At 30 June 2015	**(16,163)**	**(41,920)**	**(3,519)**	**–**	**(61,602)**
Net book value:					
At 30 June 2015	**84,081**	**79,612**	**5,272**	**64,170**	**233,135**

9 INVESTMENT PROPERTIES

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Cost:		
At 1 January	**19,355**	9,572
Reclassification from property, plant and equipment	**–**	9,783
At 30 June/31 December	**19,355**	19,355
Accumulated amortisation:		
At 1 January	**(3,224)**	(796)
Reclassification from property, plant and equipment	**–**	(1,665)
Charge for the period/year	**(460)**	(763)
At 30 June/31 December	**(3,684)**	(3,224)
Net book value:		
At 30 June/31 December	**15,671**	16,131

Notes:

(i) The investment properties owned by the Group are located in the PRC.

(ii) Investment properties leased out under operating leases

The Group leases out investment properties under operating leases. The leases run for an initial period of 2 to 5 years, with an option to renew the lease after that date at which time all terms are renegotiated. The leases do not contain contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Within 1 year	**1,661**	1,927
After 1 year but within 5 years	**540**	1,238
	2,201	3,165

10 LEASE PREPAYMENTS

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Cost:		
At 1 January	**16,910**	17,014
Additions	**35,594**	–
Decrease	**–**	(104)
At 30 June/31 December	**52,504**	16,910
Accumulated amortisation:		
At 1 January	**(1,261)**	(936)
Charge for the period/year	**(164)**	(325)
At 30 June/31 December	**(1,425)**	(1,261)
Net book value:		
At 30 June/31 December	**51,079**	15,649

Lease prepayments represented land use right premiums paid or to be paid by the Group for land situated in the PRC, with a lease period of 50 years. At 30 June 2015, land use right certificates of certain land use rights with an aggregate carrying value of RMB35,594,000 (31 December 2014: RMBNil) are yet to be obtained.

11 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Raw materials	**28,657**	33,473
Work in progress	**12,163**	24,776
Finished goods	**30,844**	24,135
	71,664	82,384

(b) The analysis of the amount of inventories recognised as an expense and included in the consolidated statement of profit or loss during the period is as follows:

	Six months ended 30 June	
	2015 RMB'000	2014 RMB'000
Carrying amount of inventories sold	**185,139**	155,363

12 TRADE RECEIVABLES

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Trade receivables from third parties	**16,730**	10,158

All of the trade receivables are expected to be recovered within one year.

Cash before delivery is generally required for all customers, where a credit period of 30 or 60 days may be granted to customers, depending on credit assessment carried out by management on an individual customer basis.

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of allowance for doubtful debts, is as follows:

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Aged within 1 month, neither past due nor impaired	**14,738**	10,158
Aged from 1 to 3 months, neither past due nor impaired	**1,992**	–
	16,730	10,158

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

13 CASH AND CASH EQUIVALENTS

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Cash at bank and on hand	**185,204**	202,079

The Group's operation in the PRC conducted its business in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

14 TRADE PAYABLES

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Trade payables to third parties	**1,209**	181

As of the end of the reporting period, the ageing analysis of trade payables, based on the maturity date, is as follows:

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Due within 1 month or on demand	**1,209**	181

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

15 ACCRUED EXPENSES AND OTHER PAYABLES

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Payables for construction and purchase of property, plant and equipment	**22,592**	1,017
Payables for land use right premiums	**34,594**	–
Payables for staff related costs	**4,289**	4,811
Payables for miscellaneous taxes	**10**	300
Payables for interest expenses	**60**	127
Others	**696**	2,209
Financial liabilities measured at amortised cost	**62,241**	8,464
Deferred income	**763**	752
	63,004	9,216

All of the accrued expenses and other payables are expected to be settled or recognised in profit or loss within one year or are repayable on demand.

16 BANK LOANS

(a) The Group's short-term bank loans are analysed as follows:

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Short-term bank loan:		
— secured (Note (i))	**30,000**	30,000
Add: current portion of long-term bank loan (Note 16(b))	**26,000**	28,000
	56,000	58,000

Note (i): At 30 June 2015, the aggregate carrying value of the secured property, plant and equipment, investment properties and land use right of the Group for the short-term bank loan is RMB68,042,000 (31 December 2014: RMB69,600,000).

16 BANK LOANS (Continued)

(b) The Group's long-term bank loan is analysed as follows:

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Long-term bank loan:		
— secured (Note (i))	**26,000**	28,000
Less: current portion of long-term bank loan (Note 16(a))	**(26,000)**	(28,000)
	–	–

The Group's long-term bank loan is repayable as follows:

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Within 1 year or on demand	**26,000**	28,000

Note (i): At 30 June 2015, the aggregate carrying value of the secured property, plant and equipment, investment properties and land use right of the Group for the long-term bank loan is RMB47,195,000 (31 December 2014: RMB48,471,000).

All of the non-current interest-bearing borrowings are carried at amortised cost.

17 DEFERRED TAX ASSETS AND LIABILITIES

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year/period are as follows:

Deferred tax arising from:	Assets — Accrued expenses, and government grants and related amortisation	Liabilities — Fair value adjustments on property, plant and equipment and lease prepayments and depreciation and amortisation in connection with the acquisition of a subsidiary	Net
	RMB'000	RMB'000	RMB'000
At 1 January 2014	916	(79)	837
Credited to the consolidated statement of profit or loss	283	12	295
At 31 December 2014	1,199	(67)	1,132
(Charged)/credited to the consolidated statement of profit or loss (Note 6)	(154)	6	(148)
At 30 June 2015	**1,045**	**(61)**	**984**

18 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the interim period

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: RMBNil).

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved during the interim period

The directors of the Company did not recommend the payment of a dividend for the year ended 31 December 2014 (year ended 31 December 2013: RMBNil).

18 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Share capital

	At 30 June 2015		At 31 December 2014	
	No. of shares	**RMB'000**	No. of shares	RMB'000
Ordinary shares, Issued and fully paid:				
At 1 January	**1,000,000,000**	**7,921**	750,000,000	5,954
Issuance of shares by way of placing	**–**	**–**	250,000,000	1,967
At 30 June/31 December	**1,000,000,000**	**7,921**	1,000,000,000	7,921

19 MATERIAL RELATED PARTY TRANSACTIONS

The material related party transactions entered into by the Group during the period are set out below.

Key management personnel remuneration

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Short-term employee benefits	**1,449**	1,495
Retirement schemes contributions	**64**	67
	1,513	1,562

20 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The Group does not have any financial instruments measured at fair value at 30 June 2015 and 31 December 2014.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 30 June 2015 and 31 December 2014.

21 COMMITMENTS

(a) Capital commitments

At 30 June 2015, the outstanding capital commitments of the Group not provided for in the interim financial report were summarised as follows:

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Commitments in respect of buildings, and machinery and equipment		
— Contracted for	**37,643**	–
— Authorised but not contracted for	**104,569**	–
	142,212	–

In March 2015, the Group established a new subsidiary (the "New subsidiary") for the construction of a new manufacturing plant in Huai'an, Jiangsu Province of the PRC. The outstanding capital commitments of the Group at 30 June 2015 not provided for in the interim financial report represent the commitments in respect of the acquisition of buildings, and machinery and equipment by the New Subsidiary.

(b) Operating lease commitments

At 30 June 2015, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Within 1 year	**2,287**	1,577
After 1 year but within 5 years	**2,661**	3,623
	4,948	5,200

22 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation, where caption items "other revenue" and "other net income" are included under "other income".

KPMG

Review report to the board of directors of
China Wood Optimization (Holding) Limited
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 3 to 25 which comprises the consolidated statement of financial position of China Wood Optimization (Holding) Limited as at 30 June 2015 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 ("HKSRE 2410"), *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

OTHER MATTER

Without modifying our review conclusion, we draw to your attention that the consolidated statement of profit or loss and statement of profit or loss and other comprehensive income for the three months ended 30 June 2015 and 2014 and the related explanatory notes have not been reviewed in accordance with HKSRE 2410.

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

13 August 2015

BUSINESS REVIEW

For the six months ended 30 June 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, 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 mainly offers to its customers less-shaved Processed Wood Panels which involves lesser production processes and lower wastage of production materials that allowed the Group to utilise its production capacity more efficiently.

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 six months ended 30 June 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.

In order to encourage existing and new customers to place more orders during low season, the Group offered its customers a discount of about 8% on the average selling prices of Processed Wood Products for orders placed in January and February 2015. This sales promotion has ended at the end of February 2015 and from March 2015 onward, the average selling prices of the Processed Wood Products resumed to normal level. In the first half of 2015, the Group participated in several major exhibitions in order to expand its customer base. This sales strategy successfully boosted the Group's revenue and expanded the Group's customer base, paving the way for its future development. As a result of the factors mentioned above, the Group recorded an increase in revenue by about 9.0%, but had a decrease in gross profit margin by about 6.6% for the six months ended 30 June 2015, as compared to the corresponding 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 141,248 square meters, the new production plant of the Group will be mainly used to produce Processed Wood Products. The construction of the Huaian Factory is scheduled to be completed and it is expected that the plant will commence production in the fourth quarter of 2015. The Group's production capacity is expected to double by the completion of Huaian Factory.

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 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.

FINANCIAL REVIEW

Revenue

The Group recorded an increase in its revenue by about RMB19.8 million or 9% from about RMB220.4 million for the six months ended 30 June 2014 to about RMB240.2 million for the six months ended 30 June 2015. The increase in revenue was mainly attributable to the increase in revenue of Processed Wood Panels. However, the average selling prices of Processed Wood Panels decreased from about RMB3,865 per cubic meter for the six months ended 30 June 2014 to about RMB3,418 per cubic meter for the six months ended 30 June 2015. The average selling prices of Processed Finger Joint Wood Panels also decreased from about RMB4,359 per cubic meter for the six months ended 30 June 2014 to about RMB4,259 per cubic meter for the six months ended 30 June 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 Products during low season, the Group offered its customers a discount of about 8% on the average selling prices of Processed Wood Products for orders placed in January and February 2015. In the first half of 2015, the Group participated in several major exhibitions which allowed the Group to expand its customer base. As a result, the total volume of Processed Wood Panels sold increased from about 47,598 cubic meters for the six months ended 30 June 2014 to about 67,293 cubic meters for the six months ended 30 June 2015.

REVENUE BY SEGMENT

Analysis of revenue by segment is as follows:

	Three months ended 30 June						**Six months ended 30 June**					
	2015			2014			**2015**			2014		
	Volume (m^3)	**RMB'000**	**%**	Volume (m^3)	RMB'000	%	**Volume (m^3)**	**RMB'000**	**%**	Volume (m^3)	RMB'000	%
Processed Wood Panels	**41,063**	**143,154**	**96.5**	30,995	117,937	84.8	**67,293**	**229,993**	**95.8**	47,598	183,959	83.5
Processed Finger Joint Wood Panels	**1,190**	**5,219**	**3.5**	4,837	21,086	15.2	**2,392**	**10,187**	**4.2**	8,369	36,482	16.5
	42,253	**148,373**	**100.0**	35,832	139,023	100.0	**69,685**	**240,180**	**100.0**	55,967	220,441	100.0

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

	Three months ended 30 June		**Six months ended 30 June**	
	2015	2014	**2015**	2014
	RMB	RMB	**RMB**	RMB
Processed Wood Panels	**3,486**	3,805	**3,418**	3,865
Processed Finger Joint Wood Panels	**4,386**	4,359	**4,259**	4,359
Overall average	**3,512**	3,880	**3,447**	3,939

Processed Wood Panels

Revenue from sales of Processed Wood Panels increased substantially by about RMB46.0 million or 25.0% from about RMB184.0 million for the six months ended 30 June 2014 to about RMB230.0 million for the six months ended 30 June 2015. The 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 and the participation of the Group in several major exhibitions in the first half of 2015 which expanded the Group's customer base. The percentage of sales of Processed Wood Panels increased from about 83.5% for the six months ended 30 June 2014 to about 95.8% for the six months ended 30 June 2015 as it was the intention of the Group to promote the sales of less-shaved Processed Wood Panels, which requires lesser production process that allowed the Group to utilise its production capacity more efficiently.

Due to the sales and marketing promotion conducted in January and February 2015 and the substantial 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 RMB3,865 per cubic meter for the six months ended 30 June 2014 to about RMB3,418 per cubic meter for the six months ended 30 June 2015.

Processed Finger Joint Wood Panels

Revenue from the sales of Processed Finger Joint Wood Panels decreased substantially by about RMB26.3 million or 72.1% from RMB36.5 million for the six months ended 30 June 2014 to RMB10.2 million for the six months ended 30 June 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 less-shaved Processed Wood Panels, which requires lesser production process that allowed the Group to utilise its production capacity more efficiently. As the Group's production capacity was mainly used to produce less-shaved Processed Wood Panels during the six months ended 30 June 2015, there was a decrease in sales of Processed Finger Joint Wood Panels. The sales volume of Processed Finger Joint Wood Panels decreased by about 5,977 cubic meters or 71.4% from about 8,369 cubic meters for the six months ended 30 June 2014 to about 2,392 cubic meters for the six months ended 30 June 2015.

The average selling price of the Group's Processed Finger Joint Wood Panels decreased from about RMB4,359 per cubic meter for the six months ended 30 June 2014 to about RMB4,259 per cubic meter for the six months ended 30 June 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 RMB29.7 million or 19.1%, from about RMB155.4 million for the six months ended 30 June 2014 to about RMB185.1 million for the six months ended 30 June 2015. The increase was mainly a result of the increase in the Group's total sales volume as discussed under the paragraph headed "Revenue" above.

Gross Profit

Gross profit of the Group decreased by about 15.4% or RMB10.0 million from about RMB65.1 million for the six months ended 30 June 2014 to about RMB55.1 million for the six months ended 30 June 2015. The decrease in gross profit of the Group was mainly attributable to the decrease in average selling prices of the Processed Wood Products and the substantial increase in sales of less-shaved Processed Wood Panels that had a lower gross profit margin, 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 29.5% for the six months ended 30 June 2014 to about 22.9% for the six months ended 30 June 2015. Such decrease was mainly attributable to the decrease in the average selling price of the Group's Processed Wood Products by about 12.5% for the six months ended 30 June 2015 as compared with its average selling price thereof for the six months ended 30 June 2014. 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 and the substantial increase in sales of less-shaved Processed Wood Panels which had a lower average selling price than the Group's traditional Processed Wood Panels.

Processed Wood Panels

Gross profit margin of Processed Wood Panels decreased from about 33.2% for the six months ended 30 June 2014 to about 23.1% for the six months ended 30 June 2015. Such decrease was mainly attributable to the sales and marketing promotion conducted in January and February 2015 and the substantial 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 increased substantially from about 11.2% for the six months ended 30 June 2014 to about 19.2% for the six months ended 30 June 2015. Such increase was mainly attributable to the increase in the output ratio of Processed Finger Joint Wood Panels which resulted in the decrease of average cost of sales.

The Group's Processed Finger Joint Wood Panels have a lower gross profit margin than that of the traditional 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 traditional Processed Wood Panels but the average selling price of the Processed Finger Joint Wood Panels is in general lower than that of the traditional Processed Wood Panels which resulted in a lower gross profit margin.

Other Income

Other income mainly comprises rental income, income from government grants and interest income. Other income of the Group increased by about RMB0.5 million from about RMB2.3 million for the six months ended 30 June 2014 to about RMB2.8 million for the six months ended 30 June 2015. The increase was mainly due to one of the tenants rented the Group's property with effect from April 2014 which resulted in the increase in rental income by about RMB0.3 million for the six months ended 30 June 2015 as compared to the same period in 2014.

Selling Expenses

The Group's selling expenses increased by about 19.2% or RMB0.5 million from about RMB2.6 million for the six months ended 30 June 2014 to about RMB3.1 million for the six months ended 30 June 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 and the increase in staff costs for hiring additional marketing personnel.

Administrative Expenses

The Group's administrative expenses decreased by about 16.5% or RMB4.8 million from about RMB29.1 million for the six months ended 30 June 2014 to about RMB24.3 million for the six months ended 30 June 2015. The decrease was mainly due to the decrease in research and development expenses by about RMB5.0 million from about RMB15.0 million for the six months ended 30 June 2014 to about RMB10.0 million for the six months ended 30 June 2015 as the Group consumed less research raw materials for its research and development projects for the six months ended 30 June 2015 than the same period in 2014.

Finance Costs

The Group's finance costs decreased by about 77.1% or RMB5.4 million from about RMB7.0 million for the six months ended 30 June 2014 to about RMB1.6 million for the six months ended 30 June 2015. The decrease was mainly attributable to the decrease in interest expense and related bank and finance charges by about RMB1.8 million for the six months ended 30 June 2015 as a result of the part repayment of bank loans from April to December 2014. In addition, the Group's exchange loss decreased by about RMB3.5 million and recorded an exchange gain of about RMB0.6 million. There was an exchange loss of about RMB2.9 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 expense remained stable at about RMB4.4 million for the six months ended 30 June 2015 and 2014.

Profit for the Period

As a combined result of the factors discussed above, the Group's profit for the period slightly increased from about RMB24.4 million for the six months ended 30 June 2014 to about RMB24.5 million for the six months ended 30 June 2015. In addition, the Group's net profit margin decreased from about 11.0% for the six months ended 30 June 2014 to about 10.2% for the six months ended 30 June 2015. Such decrease was mainly due to the decrease in the Group's gross profit margin and which was partially offset by the decrease in the administrative expenses and finance costs for the six months ended 30 June 2015.

LIQUIDITY, FINANCIAL RESOURCES AND TREASURY POLICY

	As at 30 June 2015	As at 31 December 2014
Current ratio	**2.46**	4.60
Gearing ratio*	**0.26**	0.16

* Calculated based on total debts divided by total equity at the end of the period. Total debts are defined to include payables incurred not in the ordinary course of business (total liabilities less trade payables and receipts in advance).

The current ratio of the Group as at 30 June 2015 was 2.46 times as compared to that of 4.6 times at 31 December 2014. The decrease in current ratio was mainly due to the increase in payables for land use right premium and payables for the construction and purchase of property, plant and equipment for the Huaian Factory. The Group's gearing ratio as at 30 June 2015 was about 0.26 as compared to that of 0.16 at 31 December 2014. Such increase was primarily due to the increase in payables for land use right premium and payables for the construction and purchase of property, plant and equipment for the Huaian Factory which was partially offset by the increase in our accumulated profit for the six months ended 30 June 2015.

The Group's finance department closely monitors the Group's cash flow position to ensure that the Group has sufficient working capital available to meet its operational needs. The finance department takes into account the trade receivables, trade payables, cash on hand and at bank, repayment of bank and other borrowings, administrative and capital expenditures to prepare cash flow forecast to forecast the Group's future liquidity.

The Group mainly finances its capital expenditure and operational requirements through internally generated cash flows, net proceeds from the placing (the "Placing") of the Company's shares upon listing of the Company's shares on the GEM on 6 January 2014, cash reserve and short-term bank and other borrowings. For detailed analysis of the Group's bank loans, please refer to note 16.

CAPITAL COMMITMENTS

The Group's capital commitments amounted to RMB142.2 million as at 30 June 2015 (31 December 2014: Nil).

PLEDGE OF ASSETS

At 30 June 2015, the Group's property, plant and equipment, investment properties and land use right with a carrying amount of about RMB115.2 million (31 December 2014: RMB118.1 million) were pledged to banks for bank borrowings.

CONTINGENT LIABILITY

The Group had no material contingent liabilities as at 30 June 2015 (31 December 2014: Nil).

MATERIAL ACQUISITIONS OR DISPOSALS

The Group had no material acquisition or disposal of subsidiaries and affiliated companies during the six months ended 30 June 2015.

CAPITAL STRUCTURE

There has been no change in the capital structure of the Group during the six months ended 30 June 2015. The capital of the Group only comprises ordinary shares.

SIGNIFICANT INVESTMENTS

At 30 June 2015, there was no significant investment held by the Group (31 December 2014: Nil).

FOREIGN CURRENCY EXPOSURE

During the six months ended 30 June 2015, the Group's monetary assets and transactions were mainly denominated in RMB and Hong Kong Dollars ("HK$"). The management of the Group noted the recent fluctuation in the exchange rate between RMB and HK$, and is of the opinion that it does not currently have a material adverse impact on the Group's financial position. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

EMPLOYEES AND EMOLUMENT POLICY

The Group recognises the importance of good relationship with its employees. The Directors believe that the working environment and benefits offered to employees have contributed to building good staff relations and retention. The Group continues to provide training for new staff and existing staff to enhance their technical knowledge. The Group also provides fire and production safety training to its production staff. The Directors believe such initiatives have contributed to the Group's increased productivity and efficiency.

The Group's remuneration policies are formulated based on performance of individual employees and are reviewed regularly. Subject to the Group's profitability and staff performance, the Group may also provide a discretionary bonus to employees as an incentive for their contribution to the Group. The primary goal of the remuneration policy with regard to the remuneration packages of the Group's executive Directors is to enable the Group to retain and motivate executive Directors by linking their compensation with performance as measured against corporate objectives achieved.

A remuneration committee is set up for reviewing the Group's emolument policy and structure of all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

As at 30 June 2015, the Group employed 324 employees, the total staff costs for the six months ended 30 June 2015 amounted to RMB10.3 million (2014: RMB11.9 million).

The Company maintains a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to the participants for their contributions to the Group. As at the date of this report, no option has been granted under the Share Option Scheme.

COMPARISON OF BUSINESS OBJECTIVES AND ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives as stated in the prospectus of the Company dated 30 December 2013 ("Prospectus") for the six months ended 30 June 2015 with the Group's actual business progress for the six months ended 30 June 2015 (the "Review Period") is set out below:

Business objectives for the six months ended 30 June 2015 as stated in the Prospectus	Actual Business Progress for the six months ended 30 June 2015
Strengthen our research and development capacities	
— To refine and improve our impregnation fluids	— Continue to refine and improve our impregnation fluids
— To purchase advanced equipment and materials for research use	— Poplar wood panels, coniferous (such as pine wood) and broad leaf (such as rubber wood) tree spices are purchased for research use
Continue to expand our sales network	
— To hire additional marketing personnel	— Hired 10 additional marketing staff
— To participate in various trade exhibitions and organise marketing campaigns for our products	— Participated in two exhibitions held in Beijing and Shanghai, respectively
— To establish a branch office in Liaoning Province	— In the process of looking for a suitable place to establish a branch office in Liaoning Province
— To pay the operating expenses of the newly established branch offices	— Paid the operating expenses of three sales offices in Beijing, Chengdu and Shanghai
Expansion of our production capacity	
— To construct and expand our production plant with an annual production capacity of 40,000 cubic metres and to acquire new production equipment	— The new Huaian Factory is under construction and certain new production equipment have been ordered

USE OF PROCEEDS

The net proceeds from the Company's Placing after deducting listing-related expenses were about HK$229.6 million which was based on 250,000,000 new shares being issued at a price of HK$1.0 per share pursuant to the Placing.

During the Review Period, the net proceeds from the Placing had been applied as follows:

	Business objectives for the six months ended 30 June 2015 as stated in the Prospectus	Planned use of proceeds for the six months ended 30 June 2015 as stated in the Prospectus (HK$ million)	Actual use of proceeds for the six months ended 30 June 2015 (HK$ million)
1.	Strengthen our research and development capacities	5.4	5.4
2.	Continue to expand our sales network	5.2	2.1
3.	Expansion of our production capacity *(Note)*	19.7	19.7

Note: The 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, has been fully utilised to finance the establishment of the Huaian Factory for the six months ended 30 June 2015. For details, please refer to the announcement of the Company dated 9 January 2015 relating to the change in use of proceeds.

The Directors will constantly evaluate the Group's business objectives and may change or modify plans against the changing market condition to attain sustainable business growth of the Group.

All the unutilised balances have been placed in licensed banks in Hong Kong and the PRC.

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

As at 30 June 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 30 June 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.

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

As at 30 June 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 30 June 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.

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

As at 30 June 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.

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 June 2015.

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 six months ended 30 June 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 six months ended 30 June 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 six months ended 30 June 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 six months ended 30 June 2015.

DIVIDENDS

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

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 six months ended 30 June 2015.

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

Hong Kong, 13 August 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.