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## **China Wood Optimization (Holding) Limited**

**中國優材(控股)有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8099)**

### **ANNOUNCEMENT OF THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015**

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

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

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

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

## **FINANCIAL HIGHLIGHTS**

For the nine months ended 30 September 2015, operating results of the Group were as follows:

- Revenue reached about RMB404.8 million (2014: RMB366.5 million), representing an increase of 10.5% when compared to the same period in 2014;
- Profit for the nine months ended 30 September 2015 amounted to about RMB42.0 million (2014: RMB46.2 million), representing a decrease of 9.1% when compared to the same period in 2014;
- Basic and diluted earnings per share for the nine months ended 30 September 2015 based on weighted average number of ordinary shares of about 1,000,000,000 shares (2014: 995,421,000 shares) in issue was RMB4.2 cents (2014: RMB4.6 cents); and
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2015 (2014: RMB Nil).

### THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015

The board of Directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 30 September 2015 together with the comparative unaudited figures for the corresponding period in 2014 as follows:

#### UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the nine months ended 30 September 2015

(Expressed in Renminbi (“RMB”))

	Note	Three months ended 30 September		Nine months ended 30 September	
		2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
<b>Revenue</b>	4	<b>164,612</b>	146,077	<b>404,792</b>	366,518
Cost of sales		<b>(119,430)</b>	(108,170)	<b>(304,569)</b>	(263,533)
<b>Gross profit</b>	4	<b>45,182</b>	37,907	<b>100,223</b>	102,985
Other income		<b>1,109</b>	3,655	<b>3,914</b>	5,943
Selling expenses		<b>(1,970)</b>	(723)	<b>(5,064)</b>	(3,292)
Administrative expenses		<b>(14,522)</b>	(14,455)	<b>(38,823)</b>	(43,572)
<b>Profit from operations</b>		<b>29,799</b>	26,384	<b>60,250</b>	62,064
Finance costs	5(a)	<b>(4,456)</b>	(1,220)	<b>(6,073)</b>	(8,188)
<b>Profit before taxation</b>	5	<b>25,343</b>	25,164	<b>54,177</b>	53,876
Income tax	6	<b>(7,817)</b>	(3,363)	<b>(12,182)</b>	(7,723)
<b>Profit attributable to equity shareholders of the Company for the period</b>		<b>17,526</b>	21,801	<b>41,995</b>	46,153
<b>Earnings per share</b>					
— Basic and diluted (RMB)	7	<b>0.018</b>	0.022	<b>0.042</b>	0.046

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

*For the nine months ended 30 September 2015*

*(Expressed in RMB)*

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Profit for the period</b>	<b>17,526</b>	21,801	<b>41,995</b>	46,153
<b>Other comprehensive income for the period (before and after tax):</b>				
Items that may be reclassified subsequently to profit or loss:				
— Exchange differences on translation into presentation currency	<u>3,215</u>	<u>(30)</u>	<u>3,151</u>	<u>1,603</u>
<b>Total comprehensive income attributable to equity shareholders of the Company for the period</b>	<u><b>20,741</b></u>	<u>21,771</u>	<u><b>45,146</b></u>	<u>47,756</u>

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2015

(Expressed in RMB)

	Attributable to equity shareholders of the Company						Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory reserves RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	
Balance at 1 January 2014	5,954	79,335	30	13,225	177	102,591	201,312
<b>Changes in equity for the nine months ended 30 September 2014:</b>							
Profit for the period	-	-	-	-	-	46,153	46,153
Other comprehensive income	-	-	-	-	1,603	-	1,603
Total comprehensive income	-	-	-	-	1,603	46,153	47,756
Issuance of shares by way of placing	1,967	180,641	-	-	-	-	182,608
<b>Balance at 30 September 2014 and 1 October 2014</b>	<b>7,921</b>	<b>259,976</b>	<b>30</b>	<b>13,225</b>	<b>1,780</b>	<b>148,744</b>	<b>431,676</b>
<b>Changes in equity for the three months ended 31 December 2014:</b>							
Profit for the period	-	-	-	-	-	17,575	17,575
Other comprehensive income	-	-	-	-	(530)	-	(530)
Total comprehensive income	-	-	-	-	(530)	17,575	17,045
Appropriation to reserves	-	-	-	6,392	-	(6,392)	-
<b>Balance at 31 December 2014</b>	<b>7,921</b>	<b>259,976</b>	<b>30</b>	<b>19,617</b>	<b>1,250</b>	<b>159,927</b>	<b>448,721</b>
<b>Balance at 1 January 2015</b>	<b>7,921</b>	<b>259,976</b>	<b>30</b>	<b>19,617</b>	<b>1,250</b>	<b>159,927</b>	<b>448,721</b>
<b>Changes in equity for the nine months ended 30 September 2015:</b>							
Profit for the period	-	-	-	-	-	41,995	41,995
Other comprehensive income	-	-	-	-	3,151	-	3,151
Total comprehensive income	-	-	-	-	3,151	41,995	45,146
<b>Balance at 30 September 2015</b>	<b>7,921</b>	<b>259,976</b>	<b>30</b>	<b>19,617</b>	<b>4,401</b>	<b>201,922</b>	<b>493,867</b>

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

*(Expressed in RMB unless otherwise indicated)*

## 1 CORPORATE INFORMATION

China Wood Optimization (Holding) Limited (the “Company”) was incorporated in the Cayman Islands on 6 June 2012 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time. The shares of the Company were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 6 January 2014. The condensed consolidated financial information of the Company as at and for the nine months ended 30 September 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 nine months ended 30 September 2015 (the “Third Quarterly Financial Information”) has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange, and with the same accounting policies adopted in the 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 Third Quarterly Financial Information contains unaudited consolidated statement of profit or loss, unaudited consolidated statement of profit or loss and other comprehensive income, unaudited consolidated statement of changes in equity and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial performance of the Group since the 2014 annual financial statements. The Third Quarterly Financial Information and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

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

## 3 CHANGES IN ACCOUNTING POLICIES

The International Accounting Standards Board has issued 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 Third Quarterly Financial Information.

#### 4 REVENUE

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

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

	Three months ended 30 September 2015			Nine months ended 30 September 2015		
	Processed Wood Panels RMB'000	Processed Finger Joint Wood Panels RMB'000	Total RMB'000	Processed Wood Panels RMB'000	Processed Finger Joint Wood Panels RMB'000	Total RMB'000
Revenue from external customers and reportable segment revenue	<u>159,334</u>	<u>5,278</u>	<u>164,612</u>	<u>389,327</u>	<u>15,465</u>	<u>404,792</u>
Reportable segment gross profit	<u>44,085</u>	<u>1,097</u>	<u>45,182</u>	<u>97,168</u>	<u>3,055</u>	<u>100,223</u>
	Three months ended 30 September 2014			Nine months ended 30 September 2014		
	Processed Wood Panels RMB'000	Processed Finger Joint Wood Panels RMB'000	Total RMB'000	Processed Wood Panels RMB'000	Processed Finger Joint Wood Panels RMB'000	Total RMB'000
Revenue from external customers and reportable segment revenue	<u>140,734</u>	<u>5,343</u>	<u>146,077</u>	<u>324,693</u>	<u>41,825</u>	<u>366,518</u>
Reportable segment gross profit	<u>37,394</u>	<u>513</u>	<u>37,907</u>	<u>98,402</u>	<u>4,583</u>	<u>102,985</u>

#### 5 PROFIT BEFORE TAXATION

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

##### (a) Finance costs:

	Three months ended 30 September 2015		Nine months ended 30 September 2015	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Interest on bank and other loans	<u>1,069</u>	1,469	<u>3,308</u>	5,354
Bank charges and other finance costs	<u>261</u>	6	<u>282</u>	148
Total borrowing costs	<u>1,330</u>	1,475	<u>3,590</u>	5,502
Net foreign exchange loss/(gain)	<u>3,126</u>	(255)	<u>2,483</u>	2,686
	<u>4,456</u>	1,220	<u>6,073</u>	8,188

(b) Staff costs:

	Three months ended		Nine months ended	
	30 September		30 September	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Salaries, wages and other benefits	4,818	5,298	14,146	15,932
Contributions to defined contribution retirement schemes	480	324	1,471	1,543
	<u>5,298</u>	<u>5,622</u>	<u>15,617</u>	<u>17,475</u>

(c) Other items:

	Three months ended		Nine months ended	
	30 September		30 September	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation and amortisation	4,773	4,772	14,175	14,181
Net loss/(gain) on disposal of property, plant and equipment	–	–	28	(92)
Operating lease charges in respect of plant and buildings	796	538	2,250	1,691
Research and development costs (including costs relating to staff costs disclosed in Note 5(b))	6,367	8,229	16,458	23,276
Interest income	(800)	(665)	(1,234)	(1,430)
Cost of inventories	119,430	108,170	304,569	263,533

6 INCOME TAX

	Three months ended		Nine months ended	
	30 September		30 September	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Current taxation:				
— The People's Republic of China (the "PRC") Corporate Income Tax	4,465	3,516	8,682	7,930
Deferred taxation:				
— Origination and reversal of temporary differences	3,352	(153)	3,500	(207)
	<u>7,817</u>	<u>3,363</u>	<u>12,182</u>	<u>7,723</u>

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

The Company and the subsidiary of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the nine months ended 30 September 2015 (nine months ended 30 September 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 nine months ended 30 September 2015 (nine months ended 30 September 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 nine months ended 30 September 2015 (nine months ended 30 September 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.

In November 2015, one of the subsidiaries of the Group established in the PRC has determined to distribute a dividend of RMB40,000,000 to China Wood Optimization (HK) Limited, a subsidiary of the Group incorporated in Hong Kong. Pursuant to the PRC Corporate Income Law, this dividend is subject to the PRC withholding tax at a standard rate of 10%. Accordingly the Group recognised a deferred tax liability of RMB4,000,000 at the end of September 2015.

## 7 BASIC AND DILUTED EARNINGS PER SHARE

### (a) Basic earnings per share

The basic earnings per share for the nine months ended 30 September 2015 is calculated based on the unaudited profit attributable to equity shareholders of the Company of RMB41,995,000 (nine months ended 30 September 2014: RMB46,153,000) and the weighted average of 1,000,000,000 ordinary shares (nine months ended 30 September 2014: 995,421,000 ordinary shares) in issue during the period, calculated as follows:

	Three months ended		Nine months ended	
	30 September		30 September	
	2015	2014	2015	2014
	'000	'000	'000	'000
Issued ordinary shares at 1 July/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	—	—	—	245,421
Weighted average number of ordinary shares at 30 September	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>995,421</u>

### (b) Diluted earnings per share

There was no difference between basic and diluted earnings per share as the Company did not have any dilutive potential shares outstanding during the nine months ended 30 September 2015 and 2014.

## 8 DIVIDENDS

The directors of the Company do not recommend the payment of a dividend for the nine months ended 30 September 2015 (nine months ended 30 September 2014: RMB Nil).

## 9 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".

## **MANAGEMENT DISCUSSIONS AND ANALYSIS**

### **BUSINESS REVIEW**

For the nine months ended 30 September 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**

For the nine months ended 30 September 2015, the Group's sales offices located in Beijing, Shanghai and Chengdu had commenced operations. These newly established sales offices allowed the Group to provide better after sales services to the Group's existing customers and to follow-up with the needs of the Group's 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 10.5%, but had a decrease in gross profit margin by about 3.3% for the nine months ended 30 September 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 Huaian Factory commenced its trial production in September 2015. The Group's production capacity is expected to double by the full operation of the 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 RMB38.3 million or 10.5% from about RMB366.5 million for the nine months ended 30 September 2014 to about RMB404.8 million for the nine months ended 30 September 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 RMB3,692 per cubic meter for the nine months ended 30 September 2014 to about RMB3,442 per cubic meter for the nine months ended 30 September 2015. The average selling prices of Processed Finger Joint Wood Panels decreased from about RMB4,359 per cubic meter for the nine months ended 30 September 2014 to about RMB4,293 per cubic meter for the nine months ended 30 September 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 87,937 cubic meters for the nine months ended 30 September 2014 to about 113,102 cubic meters for the nine months ended 30 September 2015.

### REVENUE BY SEGMENT

Analysis of revenue by segment is as follows:

	Three months ended 30 September						Nine months ended 30 September					
	2015			2014			2015			2014		
	Volume (m <sup>3</sup> )	RMB'000	%	Volume (m <sup>3</sup> )	RMB'000	%	Volume (m <sup>3</sup> )	RMB'000	%	Volume (m <sup>3</sup> )	RMB'000	%
Processed Wood Panels	45,809	159,334	96.8	40,339	140,734	96.3	113,102	389,327	96.2	87,937	324,693	88.6
Processed Finger Joint Wood Panels	1,211	5,278	3.2	1,226	5,343	3.7	3,603	15,465	3.8	9,595	41,825	11.4
	<u>47,020</u>	<u>164,612</u>	<u>100.0</u>	<u>41,565</u>	<u>146,077</u>	<u>100.0</u>	<u>116,705</u>	<u>404,792</u>	<u>100.0</u>	<u>97,532</u>	<u>366,518</u>	<u>100.0</u>

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

	Three months ended 30 September		Nine months ended 30 September	
	2015 RMB	2014 RMB	2015 RMB	2014 RMB
Processed Wood Panels	3,478	3,489	3,442	3,692
Processed Finger Joint Wood Panels	4,358	4,358	4,292	4,359
Overall average	<u>3,501</u>	<u>3,514</u>	<u>3,469</u>	<u>3,758</u>

## **Processed Wood Panels**

Revenue from sales of Processed Wood Panels increased by about RMB64.6 million or 19.9% from about RMB324.7 million for the nine months ended 30 September 2014 to about RMB389.3 million for the nine months ended 30 September 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 88.6% for the nine months ended 30 September 2014 to about 96.2% for the nine months ended 30 September 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 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 RMB3,692 per cubic meter for the nine months ended 30 September 2014 to about RMB3,442 per cubic meter for the nine months ended 30 September 2015.

## **Processed Finger Joint Wood Panels**

Revenue from sales of Processed Finger Joint Wood Panels decreased substantially by about RMB26.3 million or 62.9% from RMB41.8 million for the nine months ended 30 September 2014 to RMB15.5 million for the nine months ended 30 September 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 allows the Group to utilise its production capacity more efficiently. As the Group's production capacity was mainly used to produce Processed Wood Panels during the nine months ended 30 September 2015, there was a substantial decrease in sales of Processed Finger Joint Wood Panels.

The sales volume of Processed Finger Joint Wood Panels decreased substantially by about 5,992 cubic meters or 62.4% from about 9,595 cubic meters for the nine months ended 30 September 2014 to about 3,603 cubic meters for the nine months ended 30 September 2015.

## **Cost of Sales**

Cost of sales of the Group increased by about RMB41.1 million or 15.6%, from about RMB263.5 million for the nine months ended 30 September 2014 to about RMB304.6 million for the nine months ended 30 September 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 slightly by about 2.7% or RMB2.8 million from about RMB103.0 million for the nine months ended 30 September 2014 to about RMB100.2 million for the nine months ended 30 September 2015. The decrease in gross profit of the Group was mainly attributable to the decrease in the average selling prices of the Processed Wood Products and the 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 28.1% for the nine months ended 30 September 2014 to about 24.8% for the nine months ended 30 September 2015. Such decrease was mainly attributable to the decrease in the average selling price of the Group's Processed Wood Products by about 7.7% for the nine months ended 30 September 2015 as compared with its average selling price thereof for the nine months ended 30 September 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 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 30.3% for the nine months ended 30 September 2014 to about 25.0% for the nine months ended 30 September 2015. Such decrease was mainly attributable 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 gross profit margin than the traditional Processed Wood Panels for the nine months ended 30 September 2015.

### **Processed Finger Joint Wood Panels**

Gross profit margin of Processed Joint Wood Panels increased substantially from about 11.0% for the nine months ended 30 September 2014 to about 19.8% for the nine months ended 30 September 2015. Such increase was mainly attributable to the increase in output ratio of Processed Finger Joint Wood Panels which resulted in decrease of average cost of sales.

The Group's Processed Finger Joint Wood Panels have a lower gross profit margin than Processed Wood Panels because 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 general lower than that of 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 decreased by about RMB2.0 million from about RMB5.9 million for the nine months ended 30 September 2014 to about RMB3.9 million for the nine months ended 30 September 2015. The decrease was mainly due to the Group received an one-off bonus of RMB2.0 million from Handan City Provincial Bureau of Finance (邯鄲市財政局) in the third quarter of 2014 for the successful listing of the Group in Hong Kong but there were no such bonus in 2015.

## **Selling Expenses**

The Group's selling expenses increased by about 54.5% or RMB1.8 million from about RMB3.3 million for the nine months ended 30 September 2014 to about RMB5.1 million for the nine months ended 30 September 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 11.0% or RMB4.8 million from about RMB43.6 million for the nine months ended 30 September 2014 to about RMB38.8 million for the nine months ended 30 September 2015. The decrease was mainly due to the decrease in research and development expenses by about RMB6.8 million from about RMB23.3 million for the nine months ended 30 September 2014 to about RMB16.5 million for the nine months ended 30 September 2015 as the Group consumed less research raw materials for its research and development projects for the nine months ended 30 September 2015 than the same period in 2014.

## **Finance Costs**

The Group's finance cost decreased by about 25.6% or RMB2.1 million from about RMB8.2 million for the nine months ended 30 September 2014 to about RMB6.1 million for the nine months ended 30 September 2015. The decrease was mainly attributable to the decrease in interest expense by about RMB2.0 million for the nine months ended 30 September 2015 as a result of the part repayment of bank loans from April to December 2014.

## **Income Tax Expenses**

The Group's income tax expenses increased from about RMB7.7 million for the nine months ended 30 September 2014 to about RMB12.2 million for the nine months ended 30 September 2015. The increase was primarily attributable to income tax of RMB4.0 million withheld by a PRC subsidiary for a dividend of RMB40.0 million to be declared to its immediate holding company, which will then inject about RMB35.0 million to Jiangsu AMS to increase its registered capital.

## Profit for the Period

As a combined result of the factors discussed above, the Group's profit for the period decreased from about RMB46.2 million for the nine months ended 30 September 2014 to about RMB42.0 million for the nine months ended 30 September 2015. In addition, the Group's net profit margin decreased from about 12.6% for the nine months ended 30 September 2014 to about 10.4% for the nine months ended 30 September 2015. Such decrease was mainly due to the decrease in the Group's gross profit margin, the increase in selling expenses and the increase in income tax which was partially offset by the decrease in the administrative expenses and finance costs for the nine months ended 30 September 2015.

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

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

### (ii) Associated corporation of the Company

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

*Note:* The entire issued share capital of Brilliant Plan Holdings Limited is beneficially owned by Ms. Yim Tsun who is deemed to be interested in 673,250,000 Shares held by Brilliant Plan Holdings Limited under SFO.



Save as disclosed above, as at 30 September 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 September 2015, so far as the Directors are aware, the interests or short positions owned by the following persons (other than the Directors or chief executive officer of the Company) in the shares or underlying shares of the Company which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO are as follows:

### **Long position in the Shares**

<b>Name</b>	<b>Natural of interest</b>	<b>Number of securities</b>	<b>Approximate percentage of shareholding</b>
Brilliant Plan Holdings Limited ( <i>Note 1</i> )	Beneficial interest	673,250,000 Shares	67.3%
Mr. Li Yue ( <i>Note 2</i> )	Beneficial owner	51,362,000 Shares	5.1%
	Corporate interest	20,000,000 Shares	2.0%

#### *Notes:*

1. The entire issued share capital of Brilliant Plan Holdings Limited is beneficially owned by Ms. Yim Tsun. Under the SFO, Ms. Yim Tsun is deemed to be interested in all the Shares held by Brilliant Plan Holdings Limited.
2. 20,000,000 Shares are held by Shangxian Limited (a company incorporated in the British Virgin Islands with limited liability) which is 70% beneficially owned by Mr. Li Yue.

Save as disclosed above and as at 30 September 2015, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or chief executive officer of the Company) in the shares or underlying shares of the Company which are required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

## **OUTLOOK**

The Group 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 in the fourth quarter of this year (which will double the Group's production capacity by the full operation of the Huaian Factory), 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 nine months ended 30 September 2015.

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

As at 30 September 2015, none of the Directors, controlling shareholders of the Company or any of or their respective close associates had any business or interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group and any other conflicts of interests, which is required to be disclosed under Rule 11.04 of the GEM Listing Rules.

## **INTEREST OF COMPLIANCE ADVISER**

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed Guotai Junan Capital Limited ("Guotai Junan") to be the compliance adviser. As informed by Guotai Junan, neither Guotai Junan nor any of its directors or employees or close associates, has or may, any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities), which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules (except for the compliance adviser agreement entered into between the Company and Guotai Junan) as at 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 2015.

## **DIVIDENDS**

The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2015 (2014: RMB Nil).

## **DIRECTORS’ INTERESTS IN CONTRACTS**

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

## **AUDIT COMMITTEE**

The Company has established its audit committee on 20 December 2013 with terms of reference in compliance with the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee has three members comprising the Company’s three independent non-executive Directors, namely Mr. Lau Ying Kit, Mr. Pu Junwen and Mr. Zhang Dali. The chairman of the audit committee is Mr. Lau Ying Kit. The audit committee has reviewed the unaudited consolidated financial statements of the Group for the nine months ended 30 September 2015.

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

Hong Kong, 12 November 2015

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

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

*This announcement will remain on the “Latest Company Announcements” page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least seven days from the date of its posting. This announcement will also be published on the website of the Company at [www.chinawood.com.hk](http://www.chinawood.com.hk).*

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