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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 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 Growth Enterprise Market 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 year ended 31 December 2015, operating results of the Group were as follows:

— Revenue reached about RMB609.9 million (2014: RMB512.7 million), representing an increase of 18.9% from last year;

— Profit for the year amounted to about RMB75.1 million (2014: RMB63.7 million), representing an increase of 17.9% from last year;

— Basic earnings per share for the year based on weighted average number of ordinary shares of about 1,000,000,000 shares (2014: 996,575,000 shares) in issue was RMB7.5 cents (2014: RMB6.4 cents);

— Diluted earnings per share for the year based on weighted average number of ordinary shares of about 1,000,000,000 shares (2014: 996,575,000 shares) in issue was RMB7.5 cents (2014: RMB6.4 cents); and

— The Directors do not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: Nil).

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

The board of Directors (the "Board") of the Company is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2015 together with the comparative figures for the preceding financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2015
(Expressed in Renminbi ("RMB"))

	Note	2015 RMB'000	2014 RMB'000
Revenue	*4*	**609,880**	512,736
Cost of sales	*6(c)*	**(455,725)**	(377,945)
Gross profit	*4(b)*	**154,155**	134,791
Other income	*5*	**4,810**	7,702
Selling expenses		**(8,866)**	(5,022)
Administrative expenses		**(50,292)**	(54,881)
Profit from operations		**99,807**	82,590
Finance costs	*6(a)*	**(7,767)**	(8,274)
Profit before taxation	*6*	**92,040**	74,316
Income tax	*7*	**(16,927)**	(10,588)
Profit attributable to equity shareholders of the Company for the year		**75,113**	63,728
Earnings per share			
— Basic and diluted (RMB)	*10*	**0.075**	0.064

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2015
(Expressed in RMB)

	2015	2014
	RMB'000	*RMB'000*
Profit for the year	**75,113**	63,728
Other comprehensive income for the year (before and after tax):		
Items that may be reclassified subsequently to profit or loss:		
— Exchange differences on translation into presentation currency	**3,569**	1,073
Total comprehensive income attributable to equity shareholders of the Company for the year	**78,682**	64,801

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015
(Expressed in RMB)

	Note	**2015**	2014
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment	*11*	**313,146**	176,244
Investment properties	*12*	**7,383**	16,131
Lease prepayments	*13*	**54,270**	15,649
Intangible asset		**18**	48
Other receivables	*17*	**3,992**	–
Deferred tax assets	*25(b)*	**864**	1,132
		379,673	209,204
Current assets			
Inventories	*15*	**84,832**	82,384
Trade receivables	*16*	**16,617**	10,158
Prepayments, deposits and other receivables	*17*	**19,664**	16,586
Prepaid income tax	*25(a)*	**21**	931
Cash and cash equivalents	*18*	**117,312**	202,079
Pledged time deposits	*19*	**42,300**	–
		280,746	312,138
Current liabilities			
Trade payables	*20*	**–**	181
Receipts in advance	*21*	**198**	524
Accrued expenses and other payables	*22*	**52,843**	9,216
Bank and other loans	*23(a)*	**37,169**	58,000
Obligations under finance lease	*24*	**7,358**	–
		97,568	67,921
Net current assets		**183,178**	244,217
Total assets less current liabilities		**562,851**	453,421
Non-current liabilities			
Other loan	*23(b)*	**13,458**	–
Obligations under finance lease	*24*	**18,042**	–
Deferred income		**3,948**	4,700
		35,448	4,700
NET ASSETS		**527,403**	448,721
CAPITAL AND RESERVES	*26*		
Share capital		**7,921**	7,921
Reserves		**519,482**	440,800
TOTAL EQUITY		**527,403**	448,721

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015
(Expressed in RMB)

	Attributable to equity shareholders of the Company						
	Share capital	**Share premium**	**Other reserve**	**Statutory reserves**	**Exchange reserve**	**Retained profits**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 26(c))	*(Note 26(d)(i))*	*(Note 26(d)(ii))*	*(Note 26(d)(iii))*	*(Note 26(d)(iv))*		
Balance at 1 January 2014	5,954	79,335	30	13,225	177	102,591	201,312
Changes in equity for 2014:							
Profit for the year	–	–	–	–	–	63,728	63,728
Other comprehensive income	–	–	–	–	1,073	–	1,073
Total comprehensive income	–	–	–	–	1,073	63,728	64,801
Issuance of shares by way of placing	1,967	180,641	–	–	–	–	182,608
Appropriation to reserves	–	–	–	6,392	–	(6,392)	–
	1,967	180,641	–	6,392	–	(6,392)	182,608
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 2015:							
Profit for the year	–	–	–	–	–	75,113	75,113
Other comprehensive income	–	–	–	–	3,569	–	3,569
Total comprehensive income	–	–	–	–	3,569	75,113	78,682
Appropriation to reserves	–	–	–	8,685	–	(8,685)	–
Balance at 31 December 2015	7,921	259,976	30	28,302	4,819	226,355	527,403

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2015
(Expressed in RMB)

	Note	2015 RMB'000	2014 RMB'000
Operating activities			
Profit before taxation		**92,040**	74,316
Adjustments for:			
Depreciation and amortisation	*6(c)*	**20,121**	18,571
Net loss/(gain) on disposal of property, plant and equipment	*5*	**20**	(92)
Interest income	*5*	**(1,401)**	(1,883)
Finance costs	*6(a)*	**4,967**	6,594
Changes in working capital:			
(Increase)/decrease in inventories		**(2,448)**	1,420
(Increase)/decrease in trade receivables		**(6,459)**	1,701
Increase in prepayments, deposits and other receivables		**(7,200)**	(4,860)
Decrease in trade payables		**(181)**	(1,272)
(Decrease)/increase in receipts in advance		**(326)**	341
(Decrease)/increase in accrued expenses and other payables		**(360)**	1,174
Cash generated from operations		**98,773**	96,010
Income tax paid	*25(a)*	**(15,749)**	(14,286)
Net cash generated from operating activities		**83,024**	81,724
Investing activities			
Payments for purchase of property, plant and equipment		**(104,283)**	(9,232)
Proceeds from disposal of property, plant and equipment		**4,779**	3,500
(Payments)/refund for over-payment for land use right		**(13,554)**	104
Increase in pledged time deposits	*19*	**(42,300)**	–
Interest received		**1,401**	1,883

	Note	**2015** *RMB'000*	2014 *RMB'000*
Net cash used in investing activities		**(153,957)**	(3,745)
Financing activities			
Proceeds from new bank and other loans		**52,163**	30,000
Repayment of bank and other loans		**(59,536)**	(149,660)
Proceeds from issuance of shares by way of placing		**–**	196,700
Payments for share issuance expenses		**–**	(14,092)
Capital element of finance lease rentals paid		**(1,639)**	–
Other finance costs paid		**(5,041)**	(6,642)
Net cash (used in)/generated from financing activities		**(14,053)**	56,306
Net (decrease)/increase in cash and cash equivalents		**(84,986)**	134,285
Cash and cash equivalents at 1 January	*18*	**202,079**	67,788
Effect of foreign exchange rate changes		**219**	6
Cash and cash equivalents at 31 December	*18*	**117,312**	202,079

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(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 consolidated financial statements of the Company as at and for the year ended 31 December 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 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related Interpretations issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2015 comprise the Group.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Changes in accounting policies

The IASB 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 how the Group's results and financial position for the current or prior period 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.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised consolidated profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(i)(ii)), unless the investment is classified as held-for-sale.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(i)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, labour cost, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(t)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight-line method over their estimated useful lives as follows:

	Estimated useful lives
Plant and buildings	20 years
Machinery and equipment	10 years
Motor vehicles and other equipment	5–10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

(f) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see Note 2(h)) to earn rental income and/or for capital appreciation.

Investment properties are stated at cost less accumulated depreciation and impairment losses (see Note 2(i)(ii)). The depreciation policy is the same as that of property, plant and equipment (see Note 2(e)). Rental income from investment properties is accounted for as described in Note 2(r)(ii).

(g) Intangible asset

Expenditure on research and development activities is recognised as an expense in the period in which it is incurred.

Intangible asset that is acquired by the Group is stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(i)(ii)).

Amortisation of intangible asset with finite useful life is charged to profit or loss on a straight-line basis over the asset's estimated useful life. The following intangible asset with finite useful life is amortised from the date it is available for use and its estimated useful life is as follows:

	Estimated useful life
Patent use right	5 years

Both the period and method of amortisation are reviewed annually.

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 2(e). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(i)(ii). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Payments made on the acquisition of land held under an operating lease is stated at cost less accumulated amortisation and impairment losses (see Note 2(i)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the period of the lease term.

(i) Impairment of assets

(i) Impairment of receivables

Receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists for trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of receivables whose recoveries are considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against the receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— investment properties;

— pre-paid interests in leasehold land classified as being held under an operating lease;

— intangible asset; and

— investment in a subsidiary in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the GEM Listing Rules, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(i)(i) and 2(i)(ii)).

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see Note 2(i)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see Note 2(i)(i)).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

The Group has entered into an arrangement with a financial leasing institution in which the Group sold certain equipment to this institution and then leased back with scheduled lease payments. The Group has an option to buy back these equipment at a token price at the end of the lease term, i.e. the bargain purchase option. Considering that the bargain purchase option is set at a token price, it is almost certain that the Group would exercise such option. Such arrangement does not, in substance, involve a lease under IAS 17. Instead, the sales and leaseback transactions are closely interrelated and shall be accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole. The substance of this arrangement is an interest-bearing borrowing secured by the underlying assets and repayable in instalments over the lease term. The information of the underlying assets and the secured loans are disclosed in Note 11(b) and Note 23(b)(ii).

(n) Trade and other payables

Trade and other payables are initially recognised at fair value, and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the customers. Revenue excludes value added tax or other sales taxes and is after deduction of any sales discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the possible return of goods, or continuing management involvement with the goods.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and consequently recognised in profit or loss over the useful life of the asset.

(s) Translation of foreign currencies

Foreign currency transactions are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency of the entity to which they relate using the foreign exchange rates ruling at the transaction dates.

The presentation currency of the Group is RMB. The results of foreign operations which have a functional currency other than RMB are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or completed.

(u) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) the entity and the Group are members of the same group.

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) both entities are joint ventures of the same third party.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) the entity is controlled or jointly controlled by a person identified in (a).

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products, the nature of production processes, the type or class of customers, the methods used to distribute the products, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

Note 28 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment of trade and other receivables

The Group maintains an allowance for doubtful accounts for estimated losses resulting from the inability of the customers and other debtors to make the required payments. The Group bases the estimates on the assessment of recoverability of individual receivable balance, debtor credit-worthiness, and historical write-off experience. If the financial condition of the customers and other debtors were to deteriorate, actual write-offs would be higher than estimated.

(b) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 2(i)(ii). These assets are tested for impairment whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future years.

(c) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. The management reviews the estimated useful lives and residual values of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The determination of the useful lives and residual values are based on historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

4 REVENUE AND SEGMENT REPORTING

(a) 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.

There was no customer with transactions that exceeded 10% of the Group's revenue for the year ended 31 December 2015 (2014: one customer). Revenue from sales of wooden products to this customer amounted to RMB103,516,000 for the year ended 31 December 2014, and arose from both product types, as mentioned in Note 4(b), in which the Group sells. Details of concentrations of credit risk arising from the Group's customers are set out in Note 28(a).

Further details regarding the Group's principal activities are disclosed below.

(b) 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 which are produced from the pressing and laminating cut-offs arising from the trimming process of the Processed Wood Panels.

(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 years ended 31 December 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 for the years ended 31 December 2015 and 2014 is set out below.

	2015		
	Processed Wood Panels *RMB'000*	**Processed Finger Joint Wood Panels** *RMB'000*	**Total** *RMB'000*
Revenue from external customers and reportable segment revenue	**588,929**	**20,951**	**609,880**
Reportable segment gross profit	**149,999**	**4,156**	**154,155**

	2014		
	Processed Wood Panels *RMB'000*	Processed Finger Joint Wood Panels *RMB'000*	Total *RMB'000*
Revenue from external customers and reportable segment revenue	465,304	47,432	512,736
Reportable segment gross profit	127,299	7,492	134,791

(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 OTHER INCOME

	2015 *RMB'000*	2014 *RMB'000*
Interest income	**1,401**	1,883
Government grants	**1,288**	3,470
Rental income from operating leases	**1,857**	1,988
Net gain from sale of scrap materials	**284**	269
Net (loss)/gain on disposal of property, plant and equipment	**(20)**	92
	4,810	7,702

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs:

	2015 *RMB'000*	2014 *RMB'000*
Interest on bank and other loans	**4,922**	6,436
Bank charges and other finance costs	**45**	158
Total finance costs	**4,967**	6,594
Net foreign exchange loss	**2,800**	1,680
	7,767	8,274

No borrowing costs have been capitalised for the year ended 31 December 2015 (2014: RMBNil).

(b) Staff costs[#]:

	2015 *RMB'000*	2014 *RMB'000*
Salaries, wages and other benefits	**20,180**	21,516
Contributions to defined contribution retirement schemes	**2,386**	2,541
	22,566	24,057

The employees of the subsidiaries of the Group established in the PRC participate in a defined contribution retirement benefit scheme managed by the local government authority, whereby these subsidiaries are required to contribute to the scheme at a rate of 20% of the employees' basic salaries. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC, from the above mentioned retirement scheme at their normal retirement age.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for an employee employed by the Group's subsidiary incorporated in Hong Kong under a trustee. Under the MPF scheme, the employer and the employee are each required to make contributions to the plan at 5% of the employee's relevant income, subject to a cap of monthly relevant income of Hong Kong Dollar ("HK$") 30,000 (HK$25,000 prior to June 2014). Contributions to the MPF scheme vest immediately.

The Group has no further obligation for payment of other retirement benefits beyond the above contributions.

(c) Other items:

	2015 *RMB'000*	2014 *RMB'000*
Depreciation and amortisation#	**20,121**	18,571
Operating lease charges in respect of plant and buildings	**3,382**	2,211
Auditors' remuneration:		
— annual audit services	**2,165**	1,912
Research and development costs (including costs relating to staff costs disclosed in *Note 6(b)*)	**20,366**	25,868
Cost of inventories# *(Note 15(b))*	**455,725**	377,945

Cost of inventories includes RMB26,942,000 for the year ended 31 December 2015 (2014: RMB26,053,000), relating to staff costs and depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

7 INCOME TAX

(a) Income tax in the consolidated statement of profit or loss represents:

	2015 *RMB'000*	2014 *RMB'000*
Current taxation *(Note 25(a))*:		
— The PRC Corporate Income Tax	**14,659**	10,883
— The PRC Withholding Tax	**2,000**	–
	16,659	10,883
Deferred taxation *(Note 25(b))*:		
— Origination and reversal of temporary differences	**268**	(295)
	16,927	10,588

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2015 *RMB'000*	2014 *RMB'000*
Profit before taxation	**92,040**	74,316
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned *(Notes (i), (ii) and (iii))*	**23,838**	19,083
Tax effect of non-deductible expenses	**2,253**	1,817
Tax effect of non-taxable income	**(68)**	(256)
Tax concessions *(Note (iv))*	**(11,096)**	(10,056)
PRC Withholding Tax *(Note (v))*	**2,000**	–
Income tax	**16,927**	10,588

Notes:

(i) The Company and a subsidiary of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2015 (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 year ended 31 December 2015 (2014: RMBNil).

(ii) 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.

(iii) The subsidiaries of the Group established in the PRC are subject to the PRC Corporate Income Tax rate of 25% for the year ended 31 December 2015 (2014: 25%).

(iv) 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 2015 to 2017. 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.

(v) In November 2015, one of the subsidiaries of the Group established in the PRC has distributed a dividend of RMB40,000,000 to China Wood Optimization (HK) Limited, a subsidiary of the Group incorporated in Hong Kong. This distributed dividend of RMB40,000,000 is subject to a PRC withholding tax rate of 5% according to the Sino-Hong Kong Double Tax Arrangement and the relevant regulations.

    At 31 December 2015, taxable temporary differences relating to the retained profits of the subsidiaries of the Group established in the PRC amounted to RMB215,053,000 (31 December 2014: RMB176,888,000), where deferred tax liabilities in respect of the 5% PRC withholding tax that would be payable on the distributions of these profits have not been recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

8 DIRECTORS' EMOLUMENTS

Details of directors' emoluments are set out below:

	2015				
	Directors' fees *RMB'000*	**Salaries, allowances and benefits in kind** *RMB'000*	**Discretionary bonuses** *RMB'000*	**Retirement scheme contributions** *RMB'000*	**Total** *RMB'000*
Executive directors					
Ms Yim Tsun	**675**	**–**	**–**	**–**	**675**
Mr Li Li	**675**	**–**	**–**	**–**	**675**
Independent non-executive directors					
Mr Zhang Dali	**121**	**–**	**–**	**–**	**121**
Mr Pu Junwen	**121**	**–**	**–**	**–**	**121**
Mr Lau Ying Kit	**121**	**–**	**–**	**–**	**121**
	1,713	**–**	**–**	**–**	**1,713**

	2014				
	Directors' fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Discretionary bonuses *RMB'000*	Retirement scheme contributions *RMB'000*	Total *RMB'000*
Executive directors					
Ms Yim Tsun	666	–	–	–	666
Mr Li Li	666	7	–	2	675
Independent non-executive directors					
Mr Zhang Dali	119	–	–	–	119
Mr Pu Junwen	119	–	–	–	119
Mr Lau Ying Kit	119	–	–	–	119
	1,689	7	–	2	1,698

No emoluments were paid by the Group to the directors during the year in connection with their retirement from employment or compensation for loss of office with the Group, or inducement to join. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2014: two) are directors whom the emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the remaining three individuals (2014: three) who are not directors are as follows:

	2015	2014
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**941**	914
Discretionary bonuses	**80**	80
Retirement scheme contributions	**63**	58
	1,084	1,052

The emoluments of the individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following bands:

	2015	2014
	Number of individuals	Number of individuals
HK$Nil–HK$1,000,000	**3**	3

No emoluments were paid or payable by the Group to these employees as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

10 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share for the year ended 31 December 2015 is calculated based on the profit attributable to equity shareholders of the Company of RMB75,113,000 (2014: RMB63,728,000) and the weighted average of 1,000,000,000 ordinary shares (2014: 996,575,000 ordinary shares) in issue during the year, calculated as follows:

	2015	2014
	'000	*'000*
Issued ordinary shares at 1 January	**1,000,000**	750,000
Effect of shares issued by way of placing on 6 January 2014	**–**	246,575
Weighted average number of ordinary shares at 31 December	**1,000,000**	996,575

(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 years ended 31 December 2015 and 2014.

11 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	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	79	3,484	1,488	143,839	148,890
Transfer in/(out)	69,687	30,136	–	(99,823)	–
Reclassification from investment properties *(Note 12)*	9,572	–	–	–	9,572
Disposals	–	(1,336)	–	–	(1,336)
At 31 December 2015	179,545	152,699	10,079	44,016	386,339
Accumulated depreciation:					
At 1 January 2015	(13,916)	(36,169)	(2,884)	–	(52,969)
Charge for the year	(5,211)	(12,450)	(1,373)	–	(19,034)
Reclassification from investment properties *(Note 12)*	(1,553)	–	–	–	(1,553)
Written back on disposal	–	363	–	–	363
At 31 December 2015	(20,680)	(48,256)	(4,257)	–	(73,193)
Net book value:					
At 31 December 2015	158,865	104,443	5,822	44,016	313,146

At 31 December 2015, the Group is in the process of applying for the ownership certificates for certain properties with an aggregate net book value of RMB61,495,000 (31 December 2014: RMBNil). The directors are of the opinion that the Group is entitled to lawfully occupy or use these properties.

(b) Assets sold and leased back

In September 2015, Hebei AMS Wood Processing Co., Ltd. ("Hebei AMS"), one of the subsidiaries of the Group, entered into an arrangement with a financial leasing institution in which Hebei AMS sold certain equipment to this institution at a net consideration of RMB22,163,000 and then leased back with scheduled lease payments together with an option to buy back these equipment at a price of RMB1 when the lease term is expired in September 2018. As disclosed in Note 2(m), such arrangement is accounted for as an interest-bearing borrowing, of which the balance at 31 December 2015 is RMB20,627,000, secured by the relevant machinery and equipment, of which the net book value at 31 December 2015 is RMB33,175,000. Detailed information of this borrowing is disclosed in Note 23(b)(ii).

(c) Assets held under finance lease

In 2015, Jiangsu AMS Wood Industry Company Limited, one of the subsidiaries of the Group, entered into a finance lease arrangement with a financial leasing institution. The lease term is from November 2015 to November 2018. At 31 December 2015, the net book value of machinery and equipment held under finance lease is RMB26,614,000 (31 December 2014: RMBNil).

12 INVESTMENT PROPERTIES

	2015	2014
	RMB'000	*RMB'000*
Cost:		
At 1 January	**19,355**	9,572
Reclassification (to)/from property, plant and equipment *(Note 11)*	**(9,572)**	9,783
At 31 December	**9,783**	19,355
Accumulated amortisation:		
At 1 January	**(3,224)**	(796)
Reclassification to/(from) property, plant and equipment *(Note 11)*	**1,553**	(1,665)
Charge for the year	**(729)**	(763)
At 31 December	**(2,400)**	(3,224)
Net book value:		
At 31 December	**7,383**	16,131

Notes:

(i) The investment properties owned by the Group are situated in the PRC. According to the property valuation report issued by Avista Valuation Advisory Limited, an independent qualified valuer, the fair value of the Group's investment properties at 31 December 2015 is RMB12,840,000 (2014: RMB21,040,000).

(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.

Total future minimum lease receivables under non-cancellable operating leases are as follows:

	2015	2014
	RMB'000	*RMB'000*
Within 1 year	**266**	1,927
After 1 year but within 5 years	**–**	1,238
	266	3,165

13 LEASE PREPAYMENTS

	2015	2014
	RMB'000	*RMB'000*
Cost:		
At 1 January	**16,910**	17,014
Additions	**38,949**	–
Decrease	**–**	(104)
At 31 December	**55,859**	16,910
Accumulated amortisation:		
At 1 January	**(1,261)**	(936)
Charge for the year	**(328)**	(325)
At 31 December	**(1,589)**	(1,261)
Net book value:		
At 31 December	**54,270**	15,649

Lease prepayments represent land use right premiums paid by the Group for land situated in the PRC, with a lease period of 50 years. At 31 December 2015, the Group is in the process of applying for the ownership certificates for certain land use rights with an aggregate net book value of RMB38,949,000 (31 December 2014: RMBNil). The directors are of the opinion that the Group is entitled to lawfully occupy or use these land use rights.

14 INTERESTS IN SUBSIDIARIES

The following list contains the particulars of the Group's subsidiaries.

Name of subsidiary	Place and date of establishment/ incorporation	Particulars of registered/ issued and paid-up capital	Proportion of ownership interest: The Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Hebei AMS Wood Processing Co., Ltd. 河北愛美森木材加工有限公司*	The PRC 3 November 2009	RMB115,333,000	100%	–	100%	Production and sale of wood panels
Celestial New Limited 天新有限公司**	The British Virgin Islands 10 April 2012	United States Dollar ("USD")1	100%	100%	–	Investment holding
China Wood Optimization (HK) Limited 中國優化材（香港）有限公司**	Hong Kong 13 April 2012	1 share	100%	–	100%	Investment holding
Jiangsu AMS Wood Industry Company Limited 江蘇愛美森木業有限公司*	The PRC 18 March 2015	RMB165,000,000	100%	–	100%	Production and sale of wood panels

* These companies are wholly foreign owned enterprises established in the PRC. The English translation of their names are for reference only. The official names of these companies are in Chinese.

** These companies are limited liability companies incorporated outside of the PRC.

15 INVENTORIES

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

	2015	2014
	RMB'000	*RMB'000*
Raw materials	**38,091**	33,473
Work in progress	**21,441**	24,776
Finished goods	**25,300**	24,135
	84,832	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 year is as follows:

	2015	2014
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**455,725**	377,945

16 TRADE RECEIVABLES

	2015	2014
	RMB'000	*RMB'000*
Trade receivables from third parties	**16,617**	10,158

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

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:

	2015	2014
	RMB'000	*RMB'000*
Aged within 1 month, neither past due nor impaired	**16,587**	10,158
Aged from 1 to 2 months, neither past due nor impaired	**30**	–
	16,617	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.

Further details on the Group's credit policy are set out in Note 28(a).

17 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015	2014
	RMB'000	*RMB'000*
Prepayments for purchase of inventories	**12,235**	10,273
Prepaid value added tax	**3,661**	–
Receivable from disposal of property, plant and equipment	**–**	3,480
Others	**3,768**	2,833
Short-term prepayment, deposits and other receivables	**19,664**	16,586
Add: long-term other receivables		
Deposits for other loan and obligations under finance lease	**3,992**	–
	23,656	16,586

All of the short-term prepayments, deposits and other receivables at 31 December 2015 and 2014 are expected to be recovered or recognised as expenses within one year.

18 CASH AND CASH EQUIVALENTS

	2015	2014
	RMB'000	*RMB'000*
Cash at bank and on hand	**117,312**	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.

19 PLEDGED TIME DEPOSITS

	2015	2014
	RMB'000	*RMB'000*
Time deposits with original maturity over 3 months	**42,300**	–

At 31 December 2015, time deposit of RMB22,300,000 has been pledged for a bank loan of a third party supplier of Hebei AMS amounting to RMB20,000,000. This bank loan has expired and repaid by the borrower in March 2016 and as a result the pledge has been released at the same time.

At 31 December 2015, time deposit of RMB20,000,000 has been pledged for a bank loan of a third party customer of Hebei AMS amounting to RMB18,000,000. This bank loan will be expired in August 2016.

The above pledge for bank loans constitute issuance of guarantees to third parties. Further details are set out in Note 30.

20 TRADE PAYABLES

	2015	2014
	RMB'000	*RMB'000*
Trade payables to third parties	**–**	181

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

	2015	2014
	RMB'000	*RMB'000*
Due within 1 month or on demand	**–**	181

All of the trade payables at 31 December 2014 were expected to be settled within one year or are repayable on demand.

21 RECEIPTS IN ADVANCE

	2015	2014
	RMB'000	*RMB'000*
Receipts in advance from customers	**198**	524

Receipts in advance represented advances received from customers and where the goods have not been delivered to them as of the end of the reporting period.

All of the receipts in advance are expected to be recognised as revenue within one year.

22 ACCRUED EXPENSES AND OTHER PAYABLES

	2015	2014
	RMB'000	*RMB'000*
Payables for construction and purchase of property, plant and equipment	**18,585**	1,017
Payables for land use right premiums	**25,395**	–
Payables for staff related costs	**4,619**	4,811
Payables for miscellaneous taxes	**1,377**	300
Payables for interest expenses	**53**	127
Others	**2,062**	2,209
Financial liabilities measured at amortised cost	**52,091**	8,464
Deferred income	**752**	752
	52,843	9,216

All of the accrued expenses and other payables at 31 December 2015 and 2014 are expected to be settled or recognised in profit or loss within one year or are repayable on demand.

23 BANK AND OTHER LOANS

(a) The short-term bank and other loans are analysed as follows:

	2015	2014
	RMB'000	*RMB'000*
Short-term bank loans:		
— secured *(Note (i))*	**30,000**	30,000
Add: current portion of long-term bank and other loans *(Note 23(b))*	**7,169**	28,000
	37,169	58,000

Note:

(i) At 31 December 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 loans is RMB45,920,000 (31 December 2014: RMB69,600,000).

(b) The long-term bank and other loans are analysed as follows:

	2015	2014
	RMB'000	*RMB'000*
Long-term bank loan:		
— secured *(Note (i))*	**–**	28,000
Long-term other loan from a financial leasing institution		
— secured *(Note (ii))*	**20,627**	–
Less: current portion of long-term bank and other loans *(Note 23(a))*	**(7,169)**	(28,000)
	13,458	–

The Group's long-term bank and other loans are repayable as follows:

	2015	2014
	RMB'000	*RMB'000*
Within 1 year or on demand	**7,169**	28,000
After 1 year but within 2 years	**8,629**	–
After 2 year but within 5 years	**4,829**	–
	20,627	28,000

Notes:

(i) At 31 December 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 RMBNil (31 December 2014: RMB48,471,000).

(ii) At 31 December 2015, the aggregate carrying value of the secured property, plant and equipment of the Group for the long-term other loan is RMB33,175,000 (31 December 2014: RMBNil), as disclosed in Note 11(b). The effective interest rate of this long-term other loan is 17.09%

(c) At 31 December 2015, the Group's banking loan facility amounted to RMB60,000,000 (31 December 2014: RMBNil) was utilised to the extent of RMB30,000,000 (31 December 2014: RMBNil).

(d) None of the Group's bank loans are subject to the fulfilment of covenants relating to financial ratios commonly found in lending arrangements with financial institutions.

Further details of the Group's management of liquidity risk are set out in Note 28(b).

24 OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2015, the Group had obligations under finance lease repayable as follows:

	2015		2014	
	Present value of the minimum lease payments	**Total minimum lease payments**	Present value of the minimum lease payments	Total minimum lease payments
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Within 1 year	**7,358**	**11,111**	–	–
After 1 year but within 2 years	**9,688**	**13,059**	–	–
After 2 years but within 5 years	**8,354**	**9,044**	–	–
	18,042	**21,103**	–	–
	25,400	**32,214**	–	–
Less: total future finance charges		**(6,814)**		–
Present value of lease obligations		**25,400**		–

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Movements of current taxation in the consolidated statement of financial position are as follows:

	2015	2014
	RMB'000	*RMB'000*
(Prepaid income tax)/income tax payable at 1 January	**(931)**	2,472
Provision for income tax on the estimated taxable profits for the year *(Note 7(a))*	**16,659**	10,883
Income tax paid during the year	**(15,749)**	(14,286)
Prepaid income tax at 31 December	**(21)**	(931)

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year 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 related 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 *(Note 7(a))*	283	12	295
At 31 December 2014	1,199	(67)	1,132
(Charged)/credited to the consolidated statement of profit or loss *(Note 7(a))*	(280)	12	(268)
At 31 December 2015	919	(55)	864

(c) Deferred tax liabilities not recognised

At 31 December 2015, taxable temporary differences relating to the retained profits of the subsidiaries of the Group established in the PRC amounted to RMB215,053,000 (31 December 2014: RMB176,888,000), where deferred tax liabilities in respect of the 5% PRC withholding tax that would be payable on the distributions of these profits have not been recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future. These subsidiaries are subject to PRC withholding tax rate of 5% according to the Sino-Hong Kong Double Tax Arrangement and the relevant regulations.

26 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital *RMB'000* *(Note 26(c))*	Share premium *RMB'000* *(Note 26(d)(i))*	Exchange reserve *RMB'000* *(Note 26(d)(iv))*	Accumulated losses *RMB'000*	Total *RMB'000*
Balance at 1 January 2014	5,954	79,335	(2,335)	(8,824)	74,130
Changes in equity for 2014:					
Loss for the year	–	–	–	(4,304)	(4,304)
Other comprehensive income	–	–	923	–	923
Total comprehensive income	–	–	923	(4,304)	(3,381)
Issuance of shares by way of placing	1,967	180,641	–	–	182,608
Balance at 31 December 2014	7,921	259,976	(1,412)	(13,128)	253,357
Balance at 1 January 2015	7,921	259,976	(1,412)	(13,128)	253,357
Changes in equity for 2015:					
Loss for the year	–	–	–	(3,964)	(3,964)
Other comprehensive income	–	–	15,459	–	15,459
Total comprehensive income	–	–	15,459	(3,964)	11,495
Balance at 31 December 2015	7,921	259,976	14,047	(17,092)	264,852

(b) Dividends

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

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: RMBNil).

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

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

(c) Share capital

	2015		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 31 December	**1,000,000,000**	**7,921**	1,000,000,000	7,921

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by Section 34 of the Companies Law, Chapter 22 (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time.

(ii) Other reserve

Other reserve represented the capital contribution paid by the ultimate holding company of the Company on the acquisition of a subsidiary in excess of its paid-in capital prior to the group reorganisation that took place in 2012.

(iii) Statutory reserves

In accordance with the articles of association of the subsidiaries of the Group established in the PRC, these subsidiaries are required to set up certain statutory reserves, which are non-distributable. The appropriation to these reserves is at discretion of the directors of these subsidiaries. The statutory reserves can only be utilised for predetermined means upon approval by the relevant authority.

(iv) Exchange reserve

The exchange reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations into RMB. The reserve is dealt with in accordance with the accounting policy set out in Note 2(s).

(e) Distributability of reserves

At 31 December 2015, the aggregate amount of reserves (including the Company's retained profits, if any, and share premium) available for distribution to equity shareholders of the Company is RMB259,976,000 (31 December 2014: RMB 259,976,000). The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: RMBNil).

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of the ratio of total liabilities to total assets (i.e. the "liability-to-asset ratio"). During the year ended 31 December 2015, the Group's strategy was to maintain the liability-to-asset ratio at an acceptable level. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to equity shareholders, issue new shares, return capital to equity shareholders, raise new debt financing or sell assets to reduce debt. At 31 December 2015, the liability-to-asset ratio of the Group is 20.1% (31 December 2014: 13.9%).

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

27 MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company as disclosed in Note 8 and certain of the highest paid employees of the Group as disclosed in Note 9, is as follows:

	2015	2014
	RMB'000	*RMB'000*
Short-term employee benefits	**2,969**	2,927
Retirement schemes contributions	**104**	100
	3,073	3,027

Total remuneration is included in "staff costs" (see Note 6(b)).

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

Individual credit evaluations are performed on all customers and debtors. These evaluations focus on the past history of making payments of the customers/debtors when due and current ability to pay, and take into account information specific to the customers/debtors as well as pertaining to the economic environment in which the customers/debtors operate. For trade receivables, cash before delivery is generally required for all customers, where a credit period of 30 to 60 days may be granted to customers, depending on credit assessment carried out by management on an individual customer basis. Normally, the Group does not obtain collateral from customers and debtors.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer/debtor rather than the industry in which the customers/debtors operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers/debtors. At 31 December 2015, 24.1% (31 December 2014: 40.8%) of the total trade receivables were due from the Group's largest debtor, and 71.7% of the total trade receivables were due from the Group's largest five debtors (31 December 2014: 100.0% from the largest four debtors).

Except for the guarantees given by the Group as set out in Notes 19 and 30, the Group does not provide any other guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Notes 16 and 17.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses, the raising of loans and other debt financing to cover expected cash demands, where approvals by the directors of the Company are required when the borrowings exceed certain pre-determined levels of authorisation. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest dates the Group can be required to pay:

	2015 Contractual undiscounted cash outflow				
	Within 1 year or on demand *RMB'000*	**More than 1 year but less than 2 years** *RMB'000*	**More than 2 years but less than 5 years** *RMB'000*	**Total** *RMB'000*	**Carrying amount** *RMB'000*
Accrued expenses and other payables measured at amortised cost	**52,091**	**–**	**–**	**52,091**	**52,091**
Bank and other loans	**41,515**	**10,598**	**5,175**	**57,288**	**50,627**
Finance lease liabilities	**11,111**	**12,059**	**9,044**	**32,214**	**25,400**
	104,717	**22,657**	**14,219**	**141,593**	**128,118**

	2014 Contractual undiscounted cash outflow within 1 year or on demand *RMB'000*	Carrying amount *RMB'000*
Trade payables	181	181
Accrued expenses and other payables measured at amortised cost	8,464	8,464
Bank loans	61,342	58,000
	69,987	66,645

(c) Interest rate risk

The Group's interest rate risk arises primarily from interest bearing borrowings. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period:

	2015		2014	
	Effective interest rate		Effective interest rate	
	%	***RMB'000***	%	*RMB'000*
Fixed rate borrowings:				
Bank loans	**5.87%**	**30,000**	8.22%	58,000
Other loan	**17.09%**	**20,627**	–	–
Finance lease liabilities	**17.30%**	**25,400**	–	–
		76,027		58,000

No sensitivity analysis was performed for the years ended 31 December 2015 and 2014, as the Group's fixed rate borrowings do not expose the Group to cash flow interest rate risk.

(d) Currency risk

The Group is exposed to currency risk primarily through advances to group companies and cash balances denominated in currencies other than the functional currency of the lender/holder, which give rise to receivables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currency giving rise to this risk is primarily RMB.

The Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rates at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	2015	2014
	RMB'000	*RMB'000*
Other receivables	**–**	54,000
Cash and cash equivalents	**4,674**	77,781
Gross exposure arising from recognised assets	**4,674**	131,781

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax and retained profits that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2015		2014	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in profit after tax and retained profits** *RMB'000*	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits *RMB'000*
RMB	**5%**	**234**	5%	6,589
	(5%)	**(234)**	(5%)	(6,589)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and retained profits measured in their respective functional currencies, translated into RMB at the exchange rates ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency, which depends on the foreign currencies the Group is exposed to, may or may not have an effect on the Group's net assets.

(e) Fair values

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

29 COMMITMENTS

(a) Capital commitments

At 31 December 2015, the outstanding capital commitments of the Group not provided for the consolidated financial statements were summarised as follows:

	At 31 December 2015 *RMB'000*	At 31 December 2014 *RMB'000*
Commitments in respect of buildings, and machinery and equipment		
— Contracted for	**4,950**	–
— Authorised but not contracted for	**53,108**	–
	58,058	–

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 31 December 2015 not provided for the consolidated financial statements represent the commitments in respect of the construction of buildings, and acquisition of machinery and equipment by the New Subsidiary.

(b) Operating lease commitments

At 31 December 2015, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2015 *RMB'000*	2014 *RMB'000*
Within 1 year	**336**	1,577
After 1 year but within 5 years	**–**	3,623
	336	5,200

30 CONTINGENT LIABILITIES

At 31 December 2015, the Group has the following guarantees:

	2015 *RMB'000*	2014 *RMB'000*
Guarantee for bank loan of a third party supplier	**22,300**	–
Guarantee for bank loan of a third party customer	**20,000**	–
	42,300	–

Further details of the guarantees are set out in Note 19.

31 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2015 RMB'000	2014 RMB'000
Non-current assets			
Interests in subsidiaries		**246,913**	235,215
Current assets			
Prepayments and other receivables		**16,756**	15,777
Cash and cash equivalents		**1,860**	2,365
		18,616	18,142
Current liabilities			
Accrued expenses and other payables		**677**	–
Net current assets		**17,939**	18,142
NET ASSETS		**264,852**	253,357
CAPITAL AND RESERVES	*26(a)*		
Share capital		**7,921**	7,921
Reserves		**256,931**	245,436
TOTAL EQUITY		**264,852**	253,357

32 IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors of the Company consider the immediate and ultimate holding company of the Company at 31 December 2015 to be Brilliant Plan Holdings Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

33 POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these financial statements, the IASB has issued a few new standards, amendments to standards and interpretations which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Annual improvements to IFRSs 2012-2014 cycle	1 January 2016
Amendments to IAS 16 and IAS 38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
Amendments to IAS 27, *Equity method in separate financial statements*	1 January 2016
Amendments to IAS 1, *Disclosure initiative*	1 January 2016
Amendments to IAS 7, *Disclosure initiative*	1 January 2017
Amendments to IAS 12, *Income taxes — Recognition of deferred tax assets for unrealised losses*	1 January 2017
IFRS 15, *Revenue from contracts with customers*	1 January 2018
IFRS 9, *Financial instruments*	1 January 2018
IFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these new standards, amendments to standards and interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's consolidated financial statements.

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 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 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.

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 141,000 square meters, the new production plant of the Group will be mainly used to produce Processed Wood Products. The Huaian Factory commenced its production in October 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.

Sales and Marketing

For the year ended 31 December 2015, the Group's sales offices located in Beijing, Shanghai and Chengdu had commenced operations. These 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. In addition, the new Huaian Factory commenced its production and sales of the Group's Processed Wood Panels in the fourth quarter of 2015 which allowed the Group to accept more sales orders. As a result of the factors mentioned above, the Group recorded an increase in revenue by about 18.9%, but had a decrease in gross profit margin by about 1.0% for the year ended 31 December 2015, as compared to the corresponding period in 2014.

Other Business Developments

Being an innovative and environmental friendly wood enterprise, the Group was invited to attend The Fourth Summit of China and Central and Eastern European Countries (1+16 Cooperation) ("中國 — 中東歐國家領導人會晤(1+16 合作) and The China, Central and Eastern European Countries Economic and Trade Forum ("中國 — 中東歐經貿論壇") held at Suzhou Taihu International Conference Center from 24 to 25 November 2015 and the 21st United Nations Climate Change Conference ("第21屆聯合國氣候變化大會") (the "Conference") and an exhibition held in Paris, France from 30 November to 11 December 2015. Adhering to its principles on environmental protection and high-value application of wood and related products, the Group demonstrated to the world China's efforts and achievements in technological innovation, environmental protection and climate change management.

During the Conference, the Group entered into strategic cooperative agreements with System TM A/S ("System TM A/S") and HOMAG China Golden Field Limited ("金田豪邁木業機械有限公司") ("HOMAG China Golden Field"). The agreements were related to "Industry 4.0" and production lines, as well as technologies on high-value utilization and development of plantations. System TM A/S is a top-tier provider of comprehensive automated wood processing production line solutions in Europe, while HOMAG China Golden Field is the distributor in China for HOMAG Group, a world-leading wood equipment manufacturer from Germany. The aforementioned strategic agreement will allow the Group to achieve full automation and a high level of efficiency in its production processes, in turn improving the quality of the Group's products to meet international standards. It also presents a new means of protecting invaluable natural forest resources by enhancing the scale of fast-growing plantations and increasing their utilization value, as well as sharing of resources.

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") with the Group's actual business progress for the year ended 31 December 2015 is set out below:

Business objectives for the year ended 31 December 2015	Actual Business Progress for the year ended 31 December 2015
Strengthen the Group's research and development capacities	
— To refine and improve the Group's impregnation fluids	— Continue to refine and improve our impregnation fluids
— To purchase advance equipment and materials for research use	— Polar wood panels, coniferous (such as pine wood) and broad leaf (such as rubber wood) tree spices are purchased for research use
Continue to expand the Group's sales network	
— To hire additional marketing personnel	— Hired 17 additional marketing staff
— To participate in various trade exhibitions and organise marketing campaigns for the Group's products	— Participated in two exhibitions held in Beijing and Shanghai, respectively
— To establish branch offices in Liaoning Province and Shanghai	— In the process of looking for a suitable place to establish a branch office in Liaoning Province and the branch office in Shanghai has been established
— To pay the operating expenses of the newly established brand offices	— Paid the operating expenses of three sales offices in Beijing, Chengdu and Shanghai
Expansion of the Group's production capacity	
— To construct, expand and complete the Group's production plant with an annual production capacity of 40,000 cubic metres and to acquire new production equipment	— The construction of new Huaian Factory has been completed and certain new production equipment have been acquired and installed for production use

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 year ended 31 December 2015, the net proceeds from the Placing had been applied as follows:

Business objectives for the year ended 31 December 2015 as stated in the Prospectus	**Planned use of proceeds for the year ended 31 December 2015 as stated in the Prospectus** *HK$ million*	**Actual use of proceeds for the year ended 31 December 2015** *HK$ million*
1. Strengthen the Group's research and development capacities	9.3	9.3
2. Continue to expand the Group's sales network	11.0	9.8
3. Expansion of the Group's production capacity (Note)	48.1	48.1

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 year ended 31 December 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.

FINANCIAL REVIEW

Revenue

The Group recorded an increase in its revenue by about RMB97.2 million or 18.9% from about RMB512.7 million in 2014 to about RMB609.9 million in 2015. The increase in revenue in 2015 was mainly attributable to the increase in revenue of Processed Wood Panels. However, the average selling prices of Processed Wood Panels decreased from about RMB3,600 per cubic meter for the year ended 31 December 2014 to about RMB3,450 per cubic meter for the year ended 31 December 2015. The average selling prices of Processed Finger Joint Wood Panels also slightly decreased from about RMB4,342 per cubic meter for the year ended 31 December 2014 to about RMB4,310 per cubic meter for the year ended 31 December 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 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. 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 addition, the Group continued to participate in some 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 129,263 cubic meters for the year ended 31 December 2014 to about 170,692 cubic meters for the year ended 31 December 2015.

REVENUE BY SEGMENT

Analysis of revenue by segment is as follows:

	Year ended 31 December					
	2015			2014		
	Volume (m^3)	***RMB'000***	***%***	*Volume (m^3)*	*RMB'000*	*%*
Processed Wood Panels	**170,692**	**588,929**	**96.6**	129,263	465,304	90.7
Processed Finger Joint Wood Panels	**4,861**	**20,951**	**3.4**	10,923	47,432	9.3
	175,553	**609,880**	**100.0**	140,186	512,736	100.0

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

	2015	2014
	RMB	*RMB*
Processed Wood Panels	**3,450**	3,600
Processed Finger Joint Wood Panels	**4,310**	4,342
Overall average	**3,474**	3,658

Processed Wood Panels

Revenue from sales of Processed Wood Panels increased by about RMB123.6 million or 26.6% from about RMB465.3 million in 2014 to about RMB588.9 million in 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 the first quarter of 2015 and the participation of the Group in some major exhibitions in the first half of 2015 and the establishment of three sales offices which expanded the Group's customer base. In addition, the new Huaian Factory commenced its production and sales of the Group's Processed Wood Panels in the fourth quarter of 2015. Due to the factors mentioned above, the percentage of sales of Processed Wood Panels increased from about 90.7% for the year ended 31 December 2014 to about 96.6% for the year ended 31 December 2015.

Due to the sales and marketing promotion conducted in the first quarter of 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 RMB3,600 per cubic meter for the year ended 31 December 2014 to about RMB3,450 per cubic meter for the year ended 31 December 2015.

Processed Finger Joint Wood Panels

Revenue from sales of Processed Finger Joint Wood Panels decreased by about RMB26.4 million or 55.7% from about RMB47.4 million in 2014 to RMB21.0 million in 2015. The decrease was mainly a result of the Group's intention to reduce the sales of Processed Finger Joint Wood Panels and the Group focused on the sales of less-shaved Processed Wood Panels, which requires lesser production processes 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 year, there was a substantial decrease in sales of Processed Finger Joint Wood Panels in 2015.

The sales volume of Processed Finger Joint Wood Panels decreased substantially by about 6,062 cubic meters or 55.5% from about 10,923 cubic meters for the year ended 31 December 2014 to about 4,861 cubic meters for the year ended 31 December 2015.

Cost of Sales

Cost of sales of the Group increased by about RMB77.8 million or 20.6%, from about RMB377.9 million in 2014 to about RMB455.7 million in 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 increased by about 14.4% or RMB19.4 million from about RMB134.8 million in 2014 to about RMB154.2 million in 2015. The increase in gross profit of the Group was mainly attributable to the increase in sales volume of Processed Wood Panels which was partially offset by the decrease in average selling prices of the Processed Wood Products.

GROSS PROFIT MARGIN BY SEGMENT

Analysis of gross profit margin by segment is as follows:

	Year ended 31 December	
	2015	2014
	%	%
Processed Wood Panels	**25.5**	27.4
Processed Finger Joint Wood Panels	**19.8**	15.8
Overall gross profit margin	**25.3**	26.3

The overall gross profit margin of the Group decreased from about 26.3% in 2014 to about 25.3% in 2015. The decrease was a combined effect of the decrease in the average selling price of the Group's Processed Wood Products due to sales and marketing promotion conducted in the first quarter of 2015 and the substantial increase in the sales of less-shaved Processed Wood Panels which had a lower average selling price than traditional Processed Wood Panels.

Processed Wood Panels

Gross profit margin of Processed Wood Panels decreased from about 27.4% in 2014 to about 25.5% in 2015. Such decrease was mainly attributable to the decrease in the average selling price of the Group's Processed Wood Panels due to sales and marketing promotion conducted in the first quarter of 2015 and the substantial increase in sales of less-shaved Processed Wood Panels which had a lower gross profit margin than the traditional Processed Wood Panels for the year ended 31 December 2015.

Processed Finger Joint Wood Panels

Gross profit margin of Processed Finger Joint Wood Panels increased from about 15.8% in 2014 to about 19.8% in 2015. Such increase was mainly attributable to the increase in the output ratio of Processed Finger Joint Wood Panels due to the improvement in production process 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 generally 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 decreased by about RMB2.9 million from about RMB7.7 million for the year ended 31 December 2014 to about RMB4.8 million for the year ended 31 December 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 was no such bonus in 2015.

Selling Expenses

The Group's selling expenses increased by about 78.0% or RMB3.9 million from about RMB5.0 million in 2014 to about RMB8.9 million in 2015. Such increase was mainly attributable to the increase in rental expenses by about RMB1.0 million as a result of the full year rental paid by the Group's sales offices in 2015 but only a few months rental paid by these sales offices in 2014 and the increase in staff costs by about RMB0.4 million for hiring additional marketing personnel as compared to 2014. Besides, in order to expand its customer base, sales and promotion expenses for the year ended 31 December 2015 also increased by about RMB1.8 million as compared to 2014.

Administrative Expenses

The Group's administrative expenses decreased by about 8.4% or RMB4.6 million from about RMB54.9 million in 2014 to RMB50.3 million in 2015. Such decrease was principally due to the decrease in research and development expenses by about RMB5.5 million from about RMB26.5 million in 2014 to about RMB21.0 million in 2015. Such decrease was mainly due to the research projects conducted in 2015 consumed lesser wood materials and impregnation fluids than last year.

Finance Costs

The Group's finance cost decreased from about RMB8.3 million for the year ended 31 December 2014 to about RMB7.8 million for the year ended 31 December 2015. The decrease was mainly attributable to the decrease in interest expense by about RMB2.3 million for the year ended 31 December 2015 as a result of the repayment of bank loans. Such decrease was partially off-set by an increase in exchange loss of about RMB1.1 million arising from RMB exchange rate fluctuations during the year.

Income Tax Expenses

The Group's income tax expenses increased from about RMB10.6 million in 2014 to about RMB16.9 million in 2015. The increase was primarily attributable to the increase in profit before taxation from about RMB74.3 million in 2014 to about RMB92.0 million in 2015 and the income tax of RMB2.0 million withheld by a PRC subsidiary for a dividend of RMB40.0 million to be declared to its immediate holding company, which then injected about RMB35.0 million to Jiangsu AMS to increase its registered capital in 2015.

Profit for the Year

As a combined result of the factors discussed above, the Group's profit for the year increased from about RMB63.7 million in 2014 to about RMB75.1 million in 2015. In addition, the Group's net profit margin remained stable at about 12.4% and 12.3% in 2014 and 2015 respectively.

LIQUIDITY AND FINANCIAL RESOURCES AND TREASURY POLICY

	As at 31 December	
	2015	2014
Current ratio	**2.88**	4.60
Gearing ratio*	**0.25**	0.16

* *Calculated based on total debts at the end of the year divided by total equity at the end of the year. 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 31 December 2015 was 2.88 times as compared to that of 4.60 times at 31 December 2014. The decrease in current ratio was mainly due to the combined effect of increase in payables for land use right premium and payables for the construction and purchase of property, plant and equipment for the Huaian Factory and the decrease in cash and cash equivalents which was mainly due to the construction of the Huaian Factory. The Group's gearing ratio as at 31 December 2015 was about 0.25 as compared to that of 0.16 as 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 year ended 31 December 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 trade receivables, trade payables, cash on hand and at bank, repayment of bank and other borrowings and finance lease liabilities, administrative and capital expenditures to prepare the 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, short-term bank loan and other borrowings and finance lease. For detailed analysis of the Group's bank and other loans and obligations under finance lease, please refer to note 23 and note 24.

CAPITAL COMMITMENTS

The Group's capital commitments amounted to RMB58.1 million as at 31 December 2015 (31 December 2014: Nil).

PLEDGE OF ASSETS

At 31 December 2015, time deposit of RMB22.3 million is pledged for a bank loan of a third party supplier of the Group amounting to RMB20.0 million. This bank loan was expired and repaid by the borrower in March 2016 and as a result the pledge was released at the same time.

At 31 December 2015, time deposit of RMB20.0 million is pledged for a bank loan of a third party customer of the Group amounting to RMB18.0 million. This bank loan will be expired in August 2016.

At 31 December 2015, the Group's property, plant and equipment, investment properties and land use right with a carrying amount of about RMB45.9 million (31 December 2014: RMB118.1 million) were pledged to banks for bank borrowings.

At 31 December 2015, the Group's property, plant and equipment with a carrying amount of about RMB33.2 million (31 December 2014: Nil) were pledged to a financial leasing institution for the long-term other loan.

In 2015, Jiangsu AMS entered into a finance lease arrangement with a financial leasing institution. The lease term is from November 2015 to November 2018. At 31 December 2015, the net book value of machinery and equipment held under finance lease is RMB26.6 million (31 December 2014: Nil).

CONTINGENT LIABILITY

As at 31 December 2015, the Group provided guarantees for the facilities given by a bank to a customer and a supplier of the Group, both Independent Third Parties of the Company, for a total amount of RMB42.3 million (2014: Nil). The banking facilities utilised by the relevant customer and supplier amounted to RMB38.0 million (2014: Nil).

The Group provided guarantee to one of the Group's customers in order to maintain a good relationship with that customer. While the customer had limited ability in obtaining banking facilities, the customer was in need of financing resulting from its business expansion. The Group decided to provide assistance to this customer by providing guarantee for the facilities given by the bank to this customer.

The Group provided guarantee to one of the Group's suppliers because the supplier was in need of financing. It is the industry practise for these wood traders to make prepayments to their suppliers. While the supplier had limited ability in obtaining banking facilities, the Group decided to provide assistance to this supplier by providing guarantee for the facilities given by the bank to that supplier. As at the date of this announcement, the facility has been repaid and the guarantee to this supplier has been released.

The directors assessed the risk of default of the customer and a supplier at the end of each reporting period and consider the risk to be insignificant and it is unlikely that any guaranteed amount will be claimed by the bank.

MATERIAL ACQUISITIONS OR DISPOSALS

The Group had no material acquisitions or disposals of subsidiaries and affiliated companies in 2015.

CAPITAL STRUCTURE

There has been no change in the capital structure of the Group for the year ended 31 December 2015. The capital of the Group only comprises of ordinary shares.

As at 31 December 2015, all the bank loans of the Group are denominated in RMB and are subject to fixed interest rate.

SIGNIFICANT INVESTMENTS

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

FOREIGN CURRENCY EXPOSURE

During 2015, the Group's monetary assets and transactions were mainly denominated in Renminbi ("RMB") and Hong Kong Dollars ("HK$"). The management of the Group noted that the recent fluctuation in the exchange rate between RMB and HK$, 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 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 the production staff. The Directors believe that such initiatives have contributed to the Group's increased productivity and efficiency.

The Group's remuneration policies are formulated based on the performance of individual employees and are reviewed regularly. Subject to the Group's profitability and the 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 31 December 2015, the Group employed 397 employees, the total staff costs amounted to RMB22.6 million (2014: RMB24.1 million). The Company maintains a share option scheme ("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 announcement, no option has been granted under the Share Option Scheme.

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 continue to 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 and the new Huaian Factory.

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 year ended 31 December 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 year ended 31 December 2015.

Further information on the Company's corporate governance practices will be set out in the Corporate Governance Report contained in the Company's annual report for the year ended 31 December 2015, which will be sent to the shareholders in due course.

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, for the year ended 31 December 2015, they were in compliance with the required provisions set out in the Model Code. All Directors declared that they have complied with the required standard of dealings as set out in the Model Code throughout the period for the year ended 31 December 2015.

DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 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 of the Board has reviewed the consolidated results of the Group for the year ended 31 December 2015.

AUDITOR

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2015 as set out in the preliminary announcement have been agreed by the Group's auditors, KPMG, to the amounts set out in the Group's consolidated financial statements for the year.

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

Hong Kong, 10 March 2016

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 enquiries, confirm that, to the best of their knowledge and belief, (i) the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive; and (ii) there are no other matters the omission of which would make any statement herein or in this announcement misleading. All opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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

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