2015
ANNUAL REPORT

Wood Optimization

CHINA WOOD OPTIMIZATION (HOLDING) LIMITED
中國優材(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code:8099

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.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. Yim Tsun *(Chairlady)*
Mr. Li Li *(Chief Executive Officer)*

Independent non-executive Directors

Mr. Zhang Dali
Mr. Pu Junwen
Mr. Lau Ying Kit

AUDIT COMMITTEE

Mr. Lau Ying Kit *(Chairman)*
Mr. Zhang Dali
Mr. Pu Junwen

REMUNERATION COMMITTEE

Mr. Pu Junwen *(Chairman)*
Mr. Li Li
Mr. Zhang Dali

NOMINATION COMMITTEE

Mr. Zhang Dali *(Chairman)*
Mr. Li Li
Mr. Pu Junwen

COMPANY SECRETARY

Ms. Ho Wing Yan *ACIS ACS (PE)*

AUTHORISED REPRESENTATIVES

Ms. Yim Tsun
Ms. Ho Wing Yan

REGISTERED OFFICE

Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 9 Yimin River East Road
Wei Zhou Industrial Area
Wei County
Handan City
Hebei Province
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2204, 22/F
Harbour Centre
25 Harbour Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited, Wei County Branch
Bank of Communications Co., Ltd., Handan Branch
Bank of Hebei Co., Ltd., Handan Branch

LEGAL ADVISERS AS TO HONG KONG LAW

Chiu & Partners

COMPLIANCE ADVISER

Guotai Junan Capital Limited

COMPLIANCE OFFICERS

Mr. Li Li
Mr. Chor Ngai

AUDITORS

KPMG

SHARE REGISTRARS

Cayman Islands Share Registrar and Transfer Office

Appleby Trust (Cayman) Ltd.
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Union Registrars Limited
A18/F., Asia Orient Tower
Town Place
33 Lockhart Road
Wanchai
Hong Kong (which will be relocated to Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong with effect from 5 April 2016)

STOCK CODE

8099

COMPANY'S WEBSITE

http://www.chinawood.com.hk

Corporate Profile

China Wood Optimization (Holding) Limited (the "Company") and its subsidiaries (collectively, the "Group") are principally engaged in the processing, manufacturing and sale of Processed Wood Panels (as defined in the Management Discussion and Analysis ("MD&A") section of this annual report) and Processed Finger Joint Wood Panels (as defined in the MD&A section) (collectively, the "Processed Wood Products").

The Group commenced its production and sale of its Processed Wood Panels and Processed Finger Joint Wood Panels in 2010 and 2011, respectively. In July 2013, the Group was also accredited with ISO9001:2008 and ISO14001:2004 for the first time.

The Group is currently operating two production plants located in Handan City, Hebei Province and Huaian City, Jiangsu Province, the PRC respectively. In 2015, the Group's subsidiary located in Handan City was recognized again as an Advanced and New Technology Enterprise (高新技術企業) for a term of another three calendar years from 2015 to 2017. The newly established subsidiary located in Huaian City will also apply to be recognised as an Advanced and New Technology Enterprise when the conditions of being an advance and new technology enterprise are satisfied.

Financial Highlights

The following is a summary of the published results of the Group for the last five financial years.

	Year ended 31 December				
	2015	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**609,880**	512,736	481,285	270,521	160,326
Gross profit	**154,155**	134,791	141,020	90,868	57,766
Gross profit margin (%)	**25.3**	26.3	29.3	33.6	36.0
Profit attributable to equity shareholders of the Company	**75,113**	63,728	53,129	39,195	23,154

	As at 31 December				
	2015	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total non-current assets	**379,673**	209,204	226,561	223,449	208,197
Total current assets	**280,746**	312,138	183,970	130,560	90,278
Total current liabilities	**(97,568)**	(67,921)	(181,219)	(291,373)	(164,953)
Net current assets/(liabilities)	**183,178**	244,217	2,751	(160,813)	(74,675)
Non-current liabilities	**(35,448)**	(4,700)	(28,000)	–	(100,000)
Equity attributable to equity shareholders of the Company	**527,403**	448,721	201,312	62,636	33,522

The results and summary of assets and liabilities for the year ended 31 December 2011 and 2012 which were extracted from the prospectus of the Company dated 30 December 2013 ("Prospectus") have been prepared on a merger basis to indicate the results of the Group as if the group structure, at the time when the Company's shares were listed on the GEM of the Stock Exchange, had been in existence throughout those years.

Chairlady's Statement

To all shareholders,

I am pleased to present the annual report of the Group for the financial year ended 31 December 2015 on behalf of the board of directors of the Group.

OVERVIEW

In the past year, despite the slowing economic growth in China, the Group continued to uphold the development concept of "low carbon and energy conservation, sustainable green and eco-friendly", while constantly enhanced the quality, credibility and presence of the Group's products. Leveraging on the efforts of all staff of the Group, the sales, gross profit and profit increased steadily in times of adversity in 2015. As an advanced and new technology enterprise, the Group will continue to innovate efficient utilization of timber plantations in China and incessantly introduce high-quality products. With our unique technology, we will keep promoting the business development of the Group and maintain our leading position in the wood modification industry in China.

BUSINESS AND OPERATION REVIEW

Looking back at 2015, the Group continued to develop with a firm pace, entering a new era in leading the industry. In January 2015, Forbes released China's Top 100 Most Promising Listed Companies, and the Group ranked 19th on the list. In March of the same year, Jiangsu AMS Wood Industry Company Limited (江蘇愛美森木業有限公司), a subsidiary of the Group, was officially established, representing the Group's second production base settled in Huaian Industrial Park in Huaian, Jiangsu Province. The construction of the new plant was basically completed in September 2015 and it has started trial production, becoming the first local project with commencement, completion and production in the same year. Upon completion of the construction of the new plant, the Group's production capacity doubled to about 300,000m^3, for a better grasp of market opportunities.

In November 2015, the Group has been included by Morgan Stanley as MSCI China Small Cap Index. Li Li, President of the Group, was invited to the Fifth China, Central and Eastern European Countries Economic and Trade Forum as a representative from technological innovation-oriented enterprises. As an innovation-oriented enterprise emphasized on energy saving and emission reduction as well as low carbon and environmental protection, the Group outperformed a number of alternative enterprises in the country, becoming the only enterprise in the field of innovative timber being invited to the 21st UN Climate Summit held in Paris from 30 November to 11 December 2015. Adhering to the philosophy of environmental protection of "cherishing the fascinating virgin forest", the Group showed the world our efforts and results regarding technological innovation, environmental protection and response to climate changes with efficient utilization of technology and timber products. We will continue to study the expansion of the scope of application and the improvement of the quality of processed wood products with our unique technology.

PROSPECTS

Looking ahead, we will not be complacent over our current achievements, and will continue to make unremitting efforts and excellence, and promote the development of business and industry. During the participation in the Climate Summit in Paris, the Group entered into strategic cooperation agreements with Homag China Golden Field Limited and System TM A/S in Denmark in relation to Industry 4.0 production line and efficient utilization technology of timber plantations, which means that the Group will open up new development paths in the promotion of industrial upgrading by the use of technological innovation and the protection of natural forests. With the expansion in production capacity resulting from the completion of the production base in Huaian, the Group will expand its core technology to build the concept of "grand R & D platform". The Group will utilize resources in a highly efficient manner by the application of scientific methods, break the barriers within industries, take advantages in various aspects, and guide the industry towards the achievement of common goals. The Group also intends to develop into a knowledge-based enterprise by operating through the research and development life cycle of products, covering various stages such as product planning, demand analysis, project planning, task tracking, quality testing and knowledge system management, and transiting from popular to functional product structural system, in order to cover all markets and achieve maximization of market share and profit ratio.

APPRECIATION

I would like to express my gratitude to the management team and all the passionate staff for their efforts and contributions in the implementation of the Group's development strategy and business operation over the past year. Also, I would like to thank our loyal customers and business partners as well as all shareholders for their support and trust. I believe that the Group's vision of protecting natural environment, reducing deforestation and cherishing the fascinating virgin forest will be realized through our joint efforts.

Yim Tsun
Chairlady of the Board

10 March 2016

Management Discussion 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 RMB	2014 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 to the financial statements, respectively.

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 report, 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 report, 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.

Biographical Details of Directors and Senior Management

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Ms. Yim Tsun (閻峻), aged 45, is an executive Director of the Company and the Chairlady of the Group. Ms. Yim is one of the founders of the Group and one of the Controlling Shareholders. Ms. Yim was appointed as the executive Director on 6 June 2012. She is mainly responsible for the strategic planning, corporate culture, overall operation and management of the Group. She obtained a diploma in economics and management from the Liaoning Correspondence Party School* (遼寧刊授黨校) in December 1992; a diploma in Chinese painting from the Luxun Academy of Fine Arts (魯迅美術學院) in July 1995; and a professional diploma in public relations and communications management from the School of Continuing and Professional Studies of The Chinese University of Hong Kong (香港中文大學專業進修學院) in January 2008. Prior to establishing the Group, Ms. Yim worked as a manager in the China marketing department of the China Overseas Communications Limited* (中國海外傳播公司) from May 2001 to September 2003; and as a director of exhibition department in Hong Kong Wen Wei Po Daily International Public Relations Consultant Co. Limited (香港文匯報國際公關顧問有限公司) from September 2004 to November 2011.

Mr. Li Li (李理), aged 37, is an executive Director of the Company and one of the founders of the Group. Mr. Li was appointed as the executive Director on 23 July 2012 and the chief executive officer on 20 December 2013. He is a member of the remuneration committee and the nomination committee. Mr. Li is mainly responsible for the strategic planning and operation of the Group. He obtained a diploma in computer applications from Zhengzhou University (鄭州大學) in July 1998. Mr. Li has accumulated over seven years of experience in sales, business management and over two years of experience in the chemical industry. Prior to establishing the Group, Mr. Li worked as a business manager in Shenzhen Qinzhong Electronics Co., Ltd.* (深圳秦眾電子股份有限公司) from May 1998 to November 2003, whereby he was responsible for sales to sizeable customers. Mr. Li also worked in the business department in ASUSTek Computer (Shanghai) Company Limited (Guangzhou Branch) (華碩電腦(上海)有限公司廣州分公司) from April 2004 to August 2006. From September 2006 to June 2009, Mr. Li worked as a technical supervisor in Beijing Quan Hui Chemical Co. Ltd.* (北京全輝化工有限責任公司).

Independent Non-Executive Directors

Mr. Zhang Dali (張達立), aged 57, is an independent non-executive Director of the Company, the chairman of the nomination committee and a member of the audit committee and the remuneration committee. Mr. Zhang was appointed as the independent non-executive Director on 20 December 2013. Mr. Zhang obtained his diploma in control engineering and computer science from the Harbin Institute of Technology (哈爾濱工業大學) in January 1982. He then obtained a master of science in forest operations from The University of Alberta in June 1989, and a doctoral degree from the University of Wisconsin-Madison in December 1992. Mr. Zhang has accumulated over 15 years of professional experience in forestry, wood products and paper industries. Prior to joining the Group, Mr. Zhang was the Managing Director of RISI's, Inc. in Asia from March 2010 to February 2012 and a Vice President in the Corporate Development at Norske Skog (Hebei) Paper Co., Ltd. during February 2008 to February 2010, where he was responsible for corporate development. Mr. Zhang also worked for more than 11 years with the Pöyry Management Consulting between September 1996 to February 2008, and held various positions with Pöyry offices in Singapore, New York and Shanghai, where he was responsible for business and marketing strategies.

Mr. Pu Junwen (蒲俊文), aged 52, is an independent non-executive Director of the Company, the chairman of the remuneration committee and a member of the audit committee and nomination committee. Mr. Pu was appointed as the independent non-executive Director on 20 December 2013. Mr. Pu obtained a bachelor in pulp and paper engineering from the Shaanxi University of Science and Technology (陝西科技大學, formerly known as 西北輕工業學院) in July 1986. Mr. Pu also obtained a doctoral degree in technical sciences from the Saint-Petersburg State Technological University of Plant Polymers in April 1994. Prior to joining the Group, Mr. Pu was involved in academic and research work for the College of Materials Science and Technology of Beijing Forestry University (北京林業大學材料科學與技術學院) where he was a professor from January 2008 to December 2011 teaching classes on chemical processing technique for forestry production. Mr. Pu has expertise in research work relating to pulp technologies and usage of cellulose and its derivatives. He has also held positions in paper making or forestry-related committees.

Mr. Lau Ying Kit (劉英傑), aged 43, is an independent non-executive Director of the Company and the chairman of the audit committee. Mr. Lau is currently the chief financial officer and company secretary of Great Harvest Maeta Group Holdings Limited (Stock Code: 03683), a company listed on the Main Board of the Stock Exchange. Mr. Lau is also an independent non-executive director of Xiezhong International Holdings Limited (Stock Code: 3663) and Kingdom Holdings Limited (Stock Code: 528), both listed on the Main Board of the Stock Exchange. He is also a director of Adex Mining Inc. (Stock Code: ade), a company listed on the TSX Venture Exchange in Canada. Mr. Lau is a fellow member of the Hong Kong Institute of Certified Public Accountants and he holds a Master's degree in finance from the City University of Hong Kong. He has extensive experience in finance and accounting in China and Hong Kong. He joined the Group in December 2013.

COMPLIANCE OFFICERS

Mr. Li Li (李理)

Mr. Li Li, a compliance officer who also holds the post of executive Director of the Company and whose biographical details are disclosed above.

Mr. Chor Ngai (左毅)

Mr. Chor Ngai, a compliance officer who is also a member of the senior management of the Group and whose biographical details are disclosed below.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Sun Zhidong (孫志東), aged 42, is the sales and marketing controller of the Group and is responsible for the marketing and sales of the Group's products. Mr. Sun joined the Group in March 2011. He obtained a diploma in computer science from Xian City Vocational Training and Assessment Centre* (西安市職業技能鑒定及指導中心) in August 1997. Mr. Sun has accumulated over 12 years of experience in sales and marketing management, and product promotion. Prior to joining the Group, Mr. Sun worked as the business manager in Shenzhen Qinzhong Electronics Co., Ltd.* (深圳秦眾電子股份有限公司) from March 1997 to September 1998; as the general manager of Guangzhou City Qinzhong Electronics Co., Ltd.* (廣州市秦眾電子有限公司) from July 1998 to February 2001; as the general manager of Chengdu Qinzhong Co., Ltd.* (成都秦眾有限公司) from February 2001 to March 2002; as the product manager in the branding department of Shenzhen Guan Meng Technology Co., Ltd.* (深圳冠盟科技有限公司) from March 2002 to April 2003. Mr. Sun also worked in the business department in ASUSTek Computer (Shanghai) Company Limited (Guangzhou Branch) (華碩電腦(上海)有限公司廣州分公司) from March 2004 to November 2007.

Ms. Wang Hai Xia (王海霞), aged 39, is the human resources controller of the Group and is responsible for guiding and managing the overall provision of human resource services, policies and programs for the Group. Ms. Wang joined the Group in March 2011 and has since worked as the human resources controller of the Company. She has accumulated around 5 years of experience in the field of human resources and has involved in internal staff education and training, and administration work. Ms. Wang then entered into Sichuan University Training Center for Talent Skills* (四川大學人才技能培訓中心) in September 2007 to pursue further studies in human resource system management, and subsequently obtained class 2 certificate of human resource manager qualification. Prior to joining the Group, Ms. Wang worked as an administration and human resource director in Sichuan Sheng Shi Lan Ting Cultural Communication Limited* (四川盛視蘭亭文化傳播有限公司) from May 2008 to October 2009, and as an administration and human resources director in Chongqing Zhen Ji Culture Communication Co., Ltd.* (重慶臻紀文化傳播有限公司) from October 2009 to October 2010.

Mr. Liang Jin Zhao (梁錦釗), aged 46, is the factory manager of the Group. Mr. Liang joined the Group in May 2010 and has worked as the factory manager of the production plant in Handan. Mr. Liang is mainly responsible for managing the Group's production and operations, as well as completion of production planning and ordering. He has more than seven years of experience in the poplar wood industry, and has since 2005, been involved in poplar wood planting, cultivation, market usage and management work. Mr. Liang obtained a bachelor's degree in electrical and mechanical engineering from the Chongqing Institute of Architectural Engineering* (重慶建築工程學院) in July 1993. Prior to joining the Group, Mr. Liang worked as the manager of the engineering department of Zhuhai Wei Ming Engineering Co., Ltd.* (珠海衛明工程有限公司) from May 1994 to September 1996; as the manager of Zhuhai Au Fu Electrical and Mechanical Engineering Co., Ltd.* (珠海澳富機電工程有限公司) from October 1996 to March 2005; and as the cultivation management and protection manager in Hebei Jilin Wood Industry Company Limited (河北冀林木業有限公司) from April 2005 to October 2009.

* *For identification purpose only*

Mr. Zhang Miao (張淼), aged 38, is the research and development controller of the Group and is one of the founders of the Group. Mr. Zhang is mainly responsible for the overall planning and management on research and development with respect to the Group's products. Mr. Zhang has been working as the research and development controller of the Group since the establishment of the Group. Mr. Zhang obtained a bachelor's degree in laws from Liaoning University (遼寧大學) in July 2001. Prior to establishing the Group, Mr. Zhang worked as an interior designer in Zhuhai Hong Miao Decorations and Design Workshop* (珠海弘淼裝飾設計工作室) from January 2004 to October 2007. From December 2007 to August 2009, Mr. Zhang worked as a manager of the production department of Beijing Quan Hui Chemical Co. Ltd.* (北京全輝化工有限責任公司), where he was responsible for the production and formation of chemical solution, in particular synthetic resin, and also ensuring the quality assurance of its production.

Mr. Chor Ngai (左毅), aged 45, is the chief financial officer of the Company and is responsible for the overall finance and accounting operations of the Group. Mr. Chor is mainly responsible for implementing internal controls and corporate governance practices as well as management of the Group's financial matters. Mr. Chor joined the Group in March 2013 as the chief financial officer of the Company. Before joining the Company, he worked as chief financial officer, financial controller and company secretary in a number of companies, both listed and non-listed. From February 2001 to May 2003, Mr. Chor was the finance manager and company secretary of Universal Technologies Holdings Limited (Stock Code: 1026); from May 2003 to February 2006, he acted as the financial controller and company secretary of Eco-Tek Holdings Limited (Stock Code: 8169). He had also been the chief financial officer of China Wolfberry Holding Co. Ltd. and Gerber Far East 1959 Limited, which engaged in wine and porcelain and glass household products business, respectively. Mr. Chor was admitted as a fellow of the Association of Chartered Certified Accountants (''ACCA''), an associate of the Hong Kong Institute of Certified Public Accountants (''HKICPA'') and a senior international finance manager of the International Financial Management Association. He was awarded a bachelor of arts in accountancy by the Hong Kong Polytechnic University in November 1994.

* *For identification purpose only*

Report of the Directors

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The principal activities of the Company are processing, manufacturing and sale of processed wood products. The principal activities and other particulars of the subsidiaries of the Company are set out in note 14 to the financial statements.

BUSINESS MODEL AND STRATEGY

All the Group's Processed Wood Products are processed by the Group's Wood Processing Procedure (as defined in the Management Discussion and Analysis section of this report), 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.

The Group operates two production plants in the PRC, situated at Wei County, Handan City, Hebei Province and Huaian City, Jiangsu Province for the processing and manufacturing of its products. The Group also operates three sales offices at Beijing, Shanghai and Chengdu respectively. The Group's Processed Wood Products are predominantly sold through our own sales and marketing department. The Group also operates an in-house procurement department to source the major production materials for the production of its Processed Wood Products.

Details of the Group's business performance and financial review for the year ended 31 December 2015 are set out in the "Management Discussion and Analysis" section of this annual report.

The Group seeks to promote the market recognition of our Processed Wood Products in the PRC by achieving the following business objectives, including: (i) expansion of the Group's production capacity and integrated manufacturing operation; (ii) expansion of the application spectrum and improvement of the quality of the Group's Processed Wood Products; and (iii) expansion of the Group's sales network.

Business Review

A fair review of the Group's business and its outlook are set out in the sections of Chairlady's Statement and Management Discussion & Analysis. Certain financial key performance indicators are provided in the section of Five-Year Financial Summary. No important event affecting the Group has occurred since the end of the financial year under review.

Compliance with laws and regulations

The Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with such requirements could lead to the termination of operating licences. The Group has been allocating system and staff resources to ensure ongoing compliance with rules and regulations and to maintain cordial working relationships with relevant authorities effectively through effective communications.

During the year under review, the Group has complied, to the best of our knowledge, with, in relation to wood processing, the Regulations for the Implementation of the Forestry Law of the PRC (中華人民共和國森林法實施條例), the Regulations of Hebei Province on the Administration of Timber operation, processing and transportation (河北省木材經營加工運輸管理辦法); in respect of environmental protection, PRC Environmental Protection Law (中華人民共和國環境保護法), the Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), the Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), the Law of the PRC on the Prevention and Control of Environmental Noise Pollution (中華人民共和國環境噪聲污染防治法) and the Law of the PRC on the Prevention and Control of Environmental Pollution caused by Solid Waste (中華人民共和國固體廢物污染環境防治法) and other relevant laws and regulation on environmental protection; and, in respect of labour, Labour Contract Law of the PRC" (中華人民共和國勞動合同法), Social Insurance Law of the PRC (中華人民共和國社會保險法).

The Group also complies with the requirements under the Companies Ordinance, the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Securities and Futures Ordinance (the "SFO") for the disclosure of information and corporate governance. The Group also complies with the requirements of Employment Ordinance and ordinances relating to occupational safety for the interest of employees of the Group in Hong Kong.

Environmental policies and performance

Emissions

The Group recognises the importance of environmental protection and has adopted stringent measures for environmental protection in order to ensure our compliance of the prevailing environmental protection laws and regulations. The formaldehyde emission of the Group's Processed Wood Products is low (5=0.5mg/L) and satisfies the formaldehyde emission standards for E0 grade, being the highest standard under the GB/T18102-2007 Standard and LYT1700-2007 Standard (being PRC national standards limiting harmful substances in laminate floorings and wood based flooring for ground with heating system, respectively). Our products also passed a test for one hundred and fifty one (151) substances on the Candidate List of Substances of Very High Concern ("SVHC") for authorisation and comply with the European REACH (Regulation (EC) No.1907/2006 of the European Parliament and of the Council of the European Union concerning, among others, registration, evaluation, authorisation and restriction of chemicals) requirements on the use of chemical substances and their potential impacts on both human health and the environment. In April 2014, the Group's products passed the requirements promulgated by European Chemicals Agency ("ECHA") as well as the tests for 19 heavy metal elements, which further proved that the Group's products are green, eco-friendly and pollution-free.

The Group is also subject to PRC environmental laws and regulations, including the PRC Environmental Protection Law, the Law of the PRC on the Prevention and Control of Water Pollution, the Law of the PRC on the Prevention and Control of Atmospheric Pollution, the Law of the PRC on the Prevention and Control of Environmental Noise Pollution and the Law of the PRC on the Prevention and Control of Environmental Pollution caused by Solid Waste and other relevant laws and regulation on environmental protection. These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge. The Group's production facilities have undergone inspection and have been approved by the relevant environmental protection authorities. During the reporting period, the Group had fully complied with the relevant environmental laws and regulations.

The Group has adopted environmental protection measures and established a reliable system for environmental protection to prevent and control pollution levels and harm caused to the environment in the form of waste gas, waste water, solid waste, dust etc. in the course of production, construction or other activities in accordance with these environmental laws and regulations.

The principal wastes produced and emitted by the Group during its production process comprise principally waste water, wood dust, wood scraps and smoke. The Group has installed dust removal equipment at its production plant at Handan and Huaian. For waste water, the Group has installed waste water treatment facilities to recycle those polluted water for its production use. As for smoke, the Group has installed hydro-desulfurisation and dust removal equipment to process the smoke generated from the boilers before they are emitted.

The production of the chemical solution and the formation of impregnation fluids for the use in the Group's Wood Processing Procedures involve the use of chemicals, such as formaldehyde and ureaformaldehyde glue, which may be harmful or toxic in nature but does not include chromate copper arsenate, a wood preservative which is harmful to the environment and health. Nevertheless, the production of the chemical solution and the impregnation fluids do not result in any environmental or product safety problem as the resultant chemical solution and impregnation fluids produced after the production process are not harmful or toxic in nature or otherwise restricted from use for processing of woods, and all the impregnation fluids will be impregnated into and absorbed by the Group's Processed Wood Products in the Wood Processing Procedures, and no unused impregnation fluid and other unused toxic, harmful and/or restricted chemicals will be disposed of during the production process.

Use of resources

The Groups seeks to reduce its material consumption during its production process. The Group's Processed Finger Joint Wood Panels are produced from laminating and pressing cut-offs and small pieces available from the production of Processed Wood Panels.

The Group has also implemented energy saving practices in its production facilities. The Group keeps exploring additional energy-saving measures to improve our production efficiency.

The Group respects the environment and is committed to minimizing its carbon footprints as a socially responsible enterprise in Hong Kong. Carbon footprint is defined as the total amount of direct and indirect emissions of Green House Gases (GHGs) expressed in terms of the equivalent amount of Carbon Dioxide of (CO2) emission. Non-hazardous wastes produced from the Group mainly consist of used paper such as office papers and marketing materials. To minimize the impact on carbon footprints and the environment, the Group implements the following practices to use paper efficiently:

- Duplex printing is set as the default mode for most network printers;
- Employees are reminded to practice photocopying wisely;
- Employees are encouraged to use both sides of paper;
- Paper waste is recycled instead of direct disposed in landfills;
- Paper is separated from other waste for easier recycling; and
- Boxes and trays are placed beside photocopiers as containers to collect single-sided paper for reuse purpose.

Electricity consumption is identified as having an adverse impact on the environment and natural resources. A typical commercial building uses more energy for lighting than for other electric equipment. The Group is determined to reduce energy consumption and implement conservation practices to reduce the effect on carbon footprint. Air conditioning and light zone arrangements reduce unnecessary electricity usage; employees enforce good practices in maintenance of lighting and electric equipment to ensure they are kept in good and proper condition to maximize efficiency.

Principal Risks and Uncertainties Facing the Company

The following lists out the principal risks and uncertainties facing the company in achieving business objectives and the Group's approach to tackle them:

Impact of Local and International Regulations

The business operation of the Group is also subject to government policy, relevant regulations and guidelines established by the regulatory authorities. Failure to comply with the rules and requirements may lead to penalties, amendments or suspension of the business operation by the authorities. The Group closely monitors changes in government policies, regulations and markets as well as conducting studies to assess the impact of such changes.

Third-Party Risks

The Group has been relying on third-party service providers in parts of business to improve performance and efficiency of the Group. While gaining the benefits from external service providers, the management realizes that such operational dependency may pose a threat of vulnerability to unexpected poor or lapses in service including reputation damage, business disruption and monetary losses. To address such uncertainties, the Group engages only reputed third-party providers and closely monitors their performance.

Key Relationships with Employees, Customers and Suppliers

The Group recognizes the accomplishment of the employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group provides a healthy and safe workplace for all employees. No strikes and cases of fatality due to workplace accidents are found in the year under review.

The Group encompasses working relationships with suppliers to meet our customers' needs in an effective and efficient manner. The departments work closely to make sure the tendering and procurement process is conducted in an open, fair and just manner. The Group's requirements and standards are also well-communicated to suppliers before the commencement of a project.

The Group values the views and opinions of all customers through various means and channels, including usage of business intelligence to understand customer trends and needs and regular analyze on customer feedback. The Group also conducts comprehensive tests and checks to ensure that only quality products and services are offered to the customers.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of profit or loss on page 46 of this annual report.

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

MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for approximately 26.5% of the total sales. The top five suppliers accounted for approximately 35.1% of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 7.4% of the total sales and the Group's largest supplier accounted for approximately 8.7% of the total purchases for the year.

At no time during the year have the Directors, their close associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

FINANCIAL STATEMENTS

The financial performance of the Group for the year ended 31 December 2015 and the financial position of the Company and the Group as at 31 December 2015 are set out in the financial statements on pages 46 to 98.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 26 to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVE

The Company's reserves available for distribution represent the share premium, and retained profits, if any, which in aggregate amounted to RMB260.0 million as at 31 December 2015.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 12 to the financial statements.

DONATIONS

During the year, the Group did not make charitable and other donations (2014: Nil).

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 26(c) to the financial statements.

DIRECTORS

The Directors during the year ended 31 December 2015 and up to the date of this report were:

Executive Directors

Ms. Yim Tsun *(Chairlady)*
Mr. Li Li *(Chief Executive Officer)*

Independent non-executive Directors

Mr. Zhang Dali
Mr. Pu Junwen
Mr. Lau Ying Kit

Biographical information of Directors and senior management of the Group are set out from pages 20 to 23 of this annual report.

Pursuant to article 108(a) of the articles of association of the Company, at each annual general meeting one-third of the Directors for the time being, or, if their number is not 3 or a multiple of 3, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement at an annual general meeting at least once every three years. Accordingly, Mr. Zhang Dali and Mr. Pu Junwen will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting (the "Annual General Meeting").

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years and each of the independent non-executive Directors has enter into an appointment letter with the Company for an initial term of three years, all commencing from the Listing Date on 6 January 2014. The service contracts and appointment letters may be terminated by either party giving not less than three months' prior notice in writing, and is subject to termination provisions therein and retirement and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company or any other applicable laws from time to time whereby he/she shall vacate his/her office.

None of the Directors proposed for re-election at the Annual General Meeting has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

INDEMNITY OF DIRECTORS

The Company has maintained appropriate directors and officers liability insurance and such permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and the five individuals with the highest emoluments are set out in notes 8 and 9 to the financial statements, respectively.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and considers all the independent non-executive Directors to be independent.

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

As at 31 December 2015, the interests or short positions of the Directors and chief executives in the Shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as follows:

(i) The Company

Name of Director	Capacity/Nature of Interest	Long/Short position	Number of Shares held	Approximate percentage of shareholding in the Company
Ms. Yim Tsun *(Note)*	Interests in controlled corporation	Long position	673,250,000	67.3%

(ii) Associated corporation of the Company

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

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

Save as disclosed above, as at 31 December 2015, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Save as disclosed above, at no time from the Listing Date and up to the date of this annual report was the Company, or any of its holding companies, its subsidiaries or its fellow subsidiaries a party to any arrangement to enable the Directors and chief executives of the Company (including their spouses and children under 18 years of age) to hold any interest or short positions in the shares, or underlying shares, or debentures, of the Company or its associated corporations (with the meaning of Part XV of the SFO).

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

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

Name of Shareholder	Nature of interest	Number of Shares held after the Placing	Approximate percentage of shareholding after the Placing
Brilliant Plan Holdings Limited *(Note 1)*	Beneficial Owner	673,250,000	67.3%
Mr. Li Yue *(Note 2)*	Beneficial Owner	51,362,000	5.1%
	Interest of controlled corporation	20,000,000	2.0%

Notes:

1 The entire issued share capital of Brilliant Plan Holdings Limited is beneficially owned by Ms. Yim Tsun who is deemed to be interested in the Shares held by Brilliant Plan under the SFO.

2. 20,000,000 Shares are held by Shangxian Limited (a company incorporated in the British Virgin Islands with limited liability) which is 70% beneficially owned by Mr. Li Yue.

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

SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a resolution of the Shareholders passed on 20 December 2013 and became unconditional upon the Listing of the Company's shares on the Stock Exchange. The principal terms of which are set out in the paragraph headed "Share Option Scheme" under the section headed "Statutory and General Information" of the Prospectus.

The purpose of the Share Option Scheme is to provide incentives to Participants (as defined in the following paragraph) to contribute to the Group and to enable the Group to recruit and retain high-calibre employees and attract and retain human resources that are valuable to the Group.

The Board may, at its absolute discretion, offer options to subscribe to such number of Shares in accordance with the terms set out in the Share Option Scheme to the following persons (the "Participants"): Any individual being an employee, officer, agent, consultant or representative of the Company or any subsidiary, including any executive or non-executive Director or any subsidiary.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Group shall not in aggregate exceed 10% of the total number of Shares in issue as at 6 January 2014, i.e. 100,000,000 Shares. No options may be granted to any Participant of the Share Option Scheme such that the total number of Shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant under the Share Option Scheme. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK$1.0 upon acceptance of the grant on or before 28 days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which the option is granted, which date must be a business day;

(ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the date on which the option is granted; and

(iii) the nominal value of the Share.

The Share Option Scheme shall be valid and effective for a period of 10 years from 6 January 2014, after which no further options will be granted or offered.

There is no option outstanding, granted, cancelled and lapsed during the year ended 31 December 2015.

RELATED PARTY TRANSACTIONS

Details of material related party transactions entered into by the Group during the year are set out in note 27 to the financial statements.

The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

CONNECTED TRANSACTION

For the year ended 31 December 2015, there was no other transactions which constituted connected transaction(s) or continuing connected transaction(s) of the Company.

SUFFICIENCY OF PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, the Company has maintained the public float required by the GEM Listing Rules as at the date of this report.

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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2015, none of the Directors or their respective close associates had any business or interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

In order to protect the Group's interest in its business activities, on 20 December 2013, each of Brilliant Plan Holdings Limited (the "Brilliant Plan") and Ms. Yim Tsun ("Ms. Yim"), the controlling shareholders of the Company (the "Controlling Shareholders"), have entered into a non-competition deed with the Company (for itself and on behalf of its subsidiaries), pursuant to which each of them shall not, and shall procure that none of its/her close associates shall, directly or indirectly, establish, invest, involve in, manage, operate or otherwise hold any right or interest, directly or indirectly, in the business of processing, manufacturing and sales of Processed Wood Products, and such other business conducted or carried on by the Group from time to time within the PRC (inclusive of Hong Kong) and such other places as the Group may conduct or carry on business from time to time. The Company has received a confirmation from the Controlling Shareholders on their compliance with the non-competition deed for the year ended 31 December 2015.

BANK AND OTHER LOANS

Particulars of bank and other loans of the Group as at 31 December 2015 are set out in note 23 to the financial statements.

FINANCE LEASE

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).

CONTRIBUTIONS TO THE RETIREMENT BENEFITS SCHEMES

Details of contributions to the retirement schemes of the Group are set out in note 6(b) to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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.

FINANCIAL HIGHLIGHTS

A summary of the results and of the assets and liabilities of the Group for the past five financial periods is set out in the financial highlights section on page 5 of this report.

USE OF PROCEEDS

The net proceeds from the Placing were approximately HK$229.6 million and will be used as per the Group's planned use of proceeds as stated in the prospectus. Save as disclosed in this annual report, the Directors do not aware of any material change to its plan on the use of proceeds as stated in the prospectus.

For details, please refer to the paragraph headed "Use of Proceeds" in the MD&A section of this annual report.

INTEREST OF COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed Guotai Junan Capital Limited ("Guotai Junan") to be the compliance adviser. As informed by Guotai Junan, neither Guotai Junan nor any of its close associates and none of the directors or employees of Guotai Junan, has or may, have any interest in any securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities).

ANNUAL GENERAL MEETING

The Annual General Meeting for the year ended 31 December 2015 is scheduled to be held on Wednesday, 11 May 2016. A notice convening the Annual General Meeting will be issued and despatched to Shareholders on 29 March 2016.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board
Yim Tsun
Chairlady
10 March 2016

CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organisation which is open and accountable to the shareholders. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor to create more value for its shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimise returns for the shareholders.

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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE LISTED ISSUERS ("MODEL CODE")

The Company has adopted the Model Code set out in Appendix 15 to the GEM Listing Rules as the code of conduct governing dealings by all Directors in the securities of the Company on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Specific enquiries have been made with all Directors, who have confirmed that, during the 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 year ended 31 December 2015.

THE BOARD OF DIRECTORS AND DIRECTORS' ATTENDANCE AT BOARD MEETINGS

The Board currently consisted of five Directors, comprising two executive Directors and three independent non-executive Directors. During the year ended 31 December 2015, five Board meetings were held. Details of the attendance of the Directors are as follows:

Name of Director	Attendance/ Number of Board Meetings
Executive Directors	
Ms. Yim Tsun *(Chairlady)*	5/5
Mr. Li Li *(Chief Executive Officer)*	5/5
Independent Non-Executive Directors	
Mr. Zhang Dali	5/5
Mr. Pu Junwen	5/5
Mr. Lau Ying Kit	5/5

During the year ended 31 December 2015, the Company held one annual general meeting on 11 May 2015, being 2014 annual general meeting of the Company (the "2014 AGM").

2014 AGM	Number of Attendance
Executive Directors	
Ms. Yim Tsun *(Chairlady)*	1/1
Mr. Li Li *(Chief Executive Officer)*	1/1
Independent Non-Executive Directors	
Mr. Zhang Dali	1/1
Mr. Pu Junwen	1/1
Mr. Lau Ying Kit	1/1

RESPONSIBILITY OF THE BOARD

The Board is primarily responsible for overseeing and supervising the management of the business affairs and the overall performance of the Group. The Board sets the Group's values and standards and ensures that the requisite financial and human resources support are in place for the Group to achieve its objectives. The functions and duties conferred on the Board include convening shareholders' meetings, reporting on the work of the Board to the shareholders at shareholders' meetings as may be required by applicable laws, implementing resolutions passed at shareholders' meetings, determining the Company's business plans and investment plans, formulating the Company's annual budget and final accounts, formulating the Company's proposals for dividend and bonus distributions as well as exercising other powers, functions and duties as conferred on it by the articles of association of the Company and applicable laws. The senior management is delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. The Board meets regularly to review the financial and operating performance of the Company, and considers and approves the overall strategies and policies of the Company. The composition of the Board is well balanced with the Directors having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The independent non-executive Directors bring a variety of experience and expertise to the Company.

CORPORATE GOVERNANCE FUNCTIONS

The Company's corporate governance functions are carried out by the Board in compliance with code provision D.3.1 of the CG Code, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report.

All Directors have separate and independent access to the Company's senior management to fulfill their duties and, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expense. All Directors also have access to the company secretary of the Company (the "Company Secretary") who is responsible for ensuring that the Board procedures and all applicable rules and regulations are followed. An agenda and accompanying Board committee papers are distributed to the Directors/Board committee members with reasonable notice in advance of the meetings. Minutes of Board meetings and meetings of Board committees, which record in sufficient details of the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views expressed, are kept by the Company Secretary and are open for inspection by Directors.

DIRECTORS' TRAINING

According to the code provision A.6.5 of the CG Code, all Directors should participate in a programme of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, functions and duties of the Directors of the Company. During the year ended 31 December 2015, the Company had arranged to provide trainings to all the Directors.

CHAIRLADY AND CHIEF EXECUTIVE OFFICER

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

During the year ended 31 December 2015, the roles of the chairlady and the chief executive officer are separate. Ms. Yim Tsun was the chairlady while the role of the chief executive officer was performed by Mr. Li Li.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Terms of Appointment of Independent Non-executive Directors

Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term of three years commencing from the Listing Date.

Independent Non-Executive Directors

Independent non-executive Directors have played a significant role in the Board by bringing their independent judgment at the Board meetings and scrutinizing the Group's performance. Their views carry significant weight in the Board's decisions; in particular, they bring an impartial view to bear on issues arising from the Group's strategy, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided professional advice to the Board. The independent non-executive Directors provide independent advice on the Group's business strategy, results and management so that all interests of all the Shareholders can be taken into account, and the interests of the Company and its Shareholders can be protected.

In compliance with Rules 5.05(1) and 5.05A of the GEM Listing Rules, the Company has appointed three independent non-executive Directors representing more than one-third of the Board.

Among the three independent non-executive Directors, Mr. Lau Ying Kit has appropriate professional accounting qualifications and financial management expertise in compliance with the requirements set out in Rule 5.28 of the GEM Listing Rules.

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 5.09 of the GEM Listing Rules. Based on the contents of such confirmations, the Company considers that all the independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 5.09 of the GEM Listing Rules.

BOARD COMMITTEES

As an integral part of sound corporate governance practices, the Board has established the following Board committees to oversee the particular aspects of the Group's affairs:

Audit Committee

The Company has established its audit committee on 20 December 2013 with terms of reference in compliance with the CG 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 system, risk management 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.

During the year ended 31 December 2015, four audit committee meetings were held to review and discuss with the external auditors and the management of the Company the accounting principles and practices adopted by the Group, the draft financial statements for the year ended 31 December 2015 as well as internal controls, risk management and other financial reporting matters. The attendance records of individual committee members are set out below:

	Number of Meetings Attended/Held
Mr. Lau Ying Kit *(Chairman)*	4/4
Mr. Zhang Dali	4/4
Mr. Pu Junwen	4/4

Remuneration Committee

The Company established a remuneration committee on 20 December 2013 with terms of references in compliance with the CG Code as set out in Appendix 15 of the GEM Listing Rules. The remuneration committee comprises one executive Director, namely Mr. Li Li and two independent non-executive Directors, namely Mr. Pu Junwen and Mr. Zhang Dali. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management. The chairman of the remuneration committee is Mr. Pu Junwen.

During the year ended 31 December 2015, one meeting of the remuneration committee was held to, amongst others, review and approve the remuneration packages of the Directors and senior management of the Company. The attendance records of individual committee members are as follows:

	Number of Meetings Attended/Held
Mr. Pu Junwen *(Chairman)*	1/1
Mr. Li Li	1/1
Mr. Zhang Dali	1/1

Nomination Committee

The Company established a nomination committee on 20 December 2013 with terms of references in compliance with the CG Code as set out in Appendix 15 of the GEM Listing Rules. The nomination committee comprises one executive Director, namely Mr. Li Li and two independent non-executive Directors, namely Mr. Zhang Dali and Mr. Pu Junwen. The primary duties of the nomination committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board. The chairman of the nomination committee is Mr. Zhang Dali.

The Nomination Committee adopted a board diversity policy (the "Board Diversity Policy") on 20 December 2013. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and other qualities. The Company will also take into consideration its own business model and specific needs from time to time in determining the optimum composition of the Board. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee has set measurable objectives based on three focus areas: education, PRC-related working experience and independence to implement the Board Diversity Policy. Such objectives will be reviewed from time to time to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained. The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

During the year ended 31 December 2015, one meeting of the nomination committee was held. The attendance records of individual committee members are as follows:

	Number of Meetings Attended/Held
Mr. Zhang Dali *(Chairman)*	1/1
Mr. Li Li	1/1
Mr. Pu Junwen	1/1

Directors' and Auditors' Responsibility for the Consolidated Financial Statements

The management provides such explanation and information to the Board and reports regularly to the Board on financial position and prospects of the business of the Company so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibility for preparing the consolidated financial statements of the Group. The Company's consolidated financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies have been adopted and applied consistently, and that judgments and estimates made are prudent and reasonable. Having made appropriate enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the consolidated financial statements.

The responsibilities of external auditors of the Company are disclosed in "Independent Auditor's Report".

AUDITORS' REMUNERATION

The remuneration paid/payable to the Company's external auditors, KPMG, for the year ended 31 December 2015, is set out as follows:

Nature of Services	Fee paid/ payable RMB'000
Annual audit service	2,150

The fee charged by KPMG in respect of annual audit service for the year ended 31 December 2015 amounted to RMB2.15 million. The external auditors did not provide any non-audit services to the Company for the year ended 31 December 2015.

COMPANY SECRETARY

The Company has entered into a service contract with an external service provider, pursuant to which Ms. Ho Wing Yan ("Ms. Ho") was appointed as the Company Secretary. Mr. Chor Ngai, the chief financial officer of the Company, is the primary corporate contact person of the Company with Ms. Ho.

Being the Company Secretary, Ms. Ho plays an important role in supporting the Board by ensuring good information flow within the Board and that Board policy and procedures are followed. Ms. Ho is responsible for advising the Board on corporate governance matters and should also facilitate induction and professional development of Directors.

Ms. Ho is an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms. Ho continues to study professional course of corporate governance and has extensive experience in the company secretarial field for listed companies. Ms. Ho is also a holder of the Practitioner's Endorsement issued by The Hong Kong Institute of Chartered Secretaries. According to Rule 5.15 of the GEM Listing Rules, Ms. Ho took more than 15 hours of relevant professional training for the year ended 31 December 2015.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An Annual General Meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an Annual General Meeting, shall be called an extraordinary general meeting ("EGM").

To convene an EGM

Pursuant to article 64 of the articles of association of the Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by which enquiries may be put to the Board

To ensure effective communication between the Board and the shareholders, the Company has adopted a shareholders' communication policy (the "Policy") on 20 December 2013. Under the Policy, the Company's information shall be communicated to the shareholders mainly through general meetings, including annual general meetings of the Company, the Company's financial reports (interim reports and annual reports), and its corporate communications and other corporate publications on the Company's website and the Stock Exchange's website.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Any such questions shall be first directed to the Company Secretary at the Company's head office and principal place of business in Hong Kong.

Procedures for putting forward proposals at general meeting

The number of shareholders necessary for a requisition for putting forward a proposal at a shareholders' meeting shall be any number of shareholders representing not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings at the date of the requisition.

A copy or copies of requisition signed by all requisitionists shall be deposited, with a sum reasonably sufficient to meet the Company's expenses in giving notice of the proposed resolution or circulating any necessary statement, at the Company's principal place of business in Hong Kong in the case of:

(i) a requisition requiring notice of a resolution, not less than six weeks before the meeting; and

(ii) any other requisition, not less than one week before the meeting.

The Company will verify the requisition and upon confirming that the requisition is proper and in order, the Board will proceed with necessary procedures.

Communication with Shareholders

The Board recognises the importance of maintaining clear, timely and effective communication with the shareholders and investors of the Company. The Board also recognises that effective communication with its investors is critical in establishing investor confidence and to attract new investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure that the investors of the Company and the shareholders will receive accurate, clear, comprehensive and timely information of the Group through the publication of annual reports, interim reports, announcements and circulars. The Company also publishes all corporate communications on the Company's website at www.chinawood.com.hk. The Directors and members of various board committees will attend the Annual General Meeting of the Company to answer questions raised by the shareholders. The resolution of every important proposal will be proposed at general meetings separately.

Voting at general meetings of the Company are conducted by way of poll in accordance with the GEM Listing Rules. The poll results will be announced at general meetings and published on the websites of the Stock Exchange and the Company, respectively. In addition, the Company regularly meets with institutional investors, financial analysts and financial media to keep them informed of the Group's strategy, operations, management and plans, and promptly releases information related to any significant progress of the Company, so as to promote the development of the Company through mutual and efficient communications.

RISK MANAGEMENT AND INTERNAL CONTROL

During the Year, the Board complied with the code provisions on risk management and internal control as set out in the CG code. The Board has overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and maintaining appropriate and effective risk management and internal control systems for the Group. The systems are designed to manage the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The management of the Company has established a set of comprehensive policies, standards and procedures in areas of operational, financial and risk controls for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against the likelihood of the occurrence of fraud and errors.

The Board has overseen the Company's risk management and internal control systems on an ongoing basis. A year end review of the effectiveness of the Company's and its subsidiaries risk management and internal control systems has been conducted annually and the systems are considered to be effective and adequate. The Company also has an internal audit function to carry out the analysis and independent appraisal of the adequacy and effectiveness of the systems, and has procedures in place to keep information confidential and manage actual or potential conflicts of interest. Stringent internal structures have been designed to prevent the misuse of inside information and avoid conflicts of interest.

Independent Auditor's Report

Independent auditor's report to the shareholders of
China Wood Optimization (Holding) Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Wood Optimization (Holding) Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 46 to 98, which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Charter Road
Central, Hong Kong
10 March 2016

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

The notes on pages 53 to 98 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

(Expressed in RMB)

	2015 RMB'000	2014 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

The notes on pages 53 to 98 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2015

(Expressed in RMB)

	Note	2015 RMB'000	2014 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

The notes on pages 53 to 98 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2015

(Expressed in RMB)

	Note	2015 RMB'000	2014 RMB'000
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

Approved and authorised for issue by the board of directors on 10 March 2016.

Yim Tsun
Director

Li Li
Director

The notes on pages 53 to 98 form part of these financial statements.

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 RMB'000 (Note 26(c))	Share premium RMB'000 (Note 26(d)(i))	Other reserve RMB'000 (Note 26(d)(ii))	Statutory reserves RMB'000 (Note 26(d)(iii))	Exchange reserve RMB'000 (Note 26(d)(iv))	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2014	5,954	79,335	30	13,225	177	102,591	201,312
Changes in equity for 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**

The notes on pages 53 to 98 form part of these financial statements.

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
Net cash used in investing activities		**(153,957)**	(3,745)

The notes on pages 53 to 98 form part of these financial statements.

Consolidated Cash Flow Statement

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

	Note	2015 RMB'000	2014 RMB'000
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

The notes on pages 53 to 98 form part of these financial statements.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

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)).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment (Continued)

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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(i) Impairment of receivables (Continued)

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).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

— 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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 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 are 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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Income tax (Continued)

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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Translation of foreign currencies (Continued)

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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Related parties (Continued)

(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.

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Segment results (Continued)

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).

6 PROFIT BEFORE TAXATION (Continued)

(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.

7 INCOME TAX (Continued)

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

Notes: (Continued)

(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**

8 DIRECTORS' EMOLUMENTS (Continued)

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

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)

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 Number of individuals	2014 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 '000	2014 '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.

11 PROPERTY, PLANT AND EQUIPMENT (Continued)

(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 RMB'000	2014 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 (31 December 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 RMB'000	2014 RMB'000
Within 1 year	**266**	1,927
After 1 year but within 5 years	**–**	1,238
	266	3,165

13 LEASE PREPAYMENTS

	2015 RMB'000	2014 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.

			Proportion of ownership interest			
Name of subsidiary	Place and date of establishment/ incorporation	Particulars of registered/ issued and paid-up capital	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 RMB'000	2014 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

15 INVENTORIES (Continued)

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

16 TRADE RECEIVABLES

	2015 RMB'000	2014 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 RMB'000	2014 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 RMB'000	2014 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 RMB'000	2014 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 **RMB'000**	2014 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 **RMB'000**	2014 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 **RMB'000**	2014 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 RMB'000	2014 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 RMB'000	2014 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 **RMB'000**	2014 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 **RMB'000**	2014 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	–

23 BANK AND OTHER LOANS (Continued)

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

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

	2015 RMB'000	2014 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 and other 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 RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	7,358	11,111	–	–
After 1 year but within 2 years	9,688	12,059	–	–
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 RMB'000	2014 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 RMB'000	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 RMB'000	Net 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

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

(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**

26 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(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.

26 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Nature and purpose of reserves (Continued)

(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 RMB'000	2014 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).

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(a) Credit risk (Continued)

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

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(b) Liquidity risk (Continued)

	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 %	**RMB'000**	Effective interest rate %	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.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

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

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Currency risk (Continued)

(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

Approved and authorised for issue by the board of directors on 10 March 2016.

Yim Tsun
Director

Li Li
Director

(Expressed in RMB unless otherwise indicated)

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.