



2016

FIRST QUARTERLY REPORT

AMS Wood
Optimization

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

(Incorporated in the Cayman Islands with limited liability)

Stock Code:8099

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

Financial Highlights

For the three months ended 31 March 2016, operating results of the Group were as follows:

- Revenue reached about RMB167.2 million (2015: RMB91.8 million), representing a substantial increase of 82.1% as compared to the corresponding period of previous financial year;
- Profit for the three months ended 31 March 2016 amounted to about RMB25.0 million (2015: RMB5.9 million), representing a substantial increase of 323.7% as compared to the corresponding period of previous financial year;
- Basic and diluted earnings per share for the three months ended 31 March 2016 based on weighted average number of ordinary shares of 1,000,000,000 shares (2015: 1,000,000,000 shares) in issue was RMB2.5 cents (2015: RMB0.6 cent); and
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2016 (2015: Nil).

Unaudited Consolidated Statement of Profit or Loss

For the three months ended 31 March 2016

(Expressed in Renminbi ("RMB"))

The board of Directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2016 together with the comparative unaudited figures for the corresponding period in 2015 as follows:

	Note	Three months ended 31 March	
		2016 RMB'000	2015 RMB'000
Revenue	4	167,188	91,807
Cost of sales		(123,369)	(75,966)
Gross profit	4	43,819	15,841
Other income		1,422	984
Selling expenses		(706)	(1,102)
Administrative expenses		(11,260)	(7,953)
Profit from operations		33,275	7,770
Finance costs	5(a)	(2,342)	(734)
Profit before taxation	5	30,933	7,036
Income tax	6	(5,906)	(1,136)
Profit attributable to equity shareholders of the Company for the period		25,027	5,900
Earnings per share			
— Basic and diluted (RMB)	7	0.025	0.006

Unaudited Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the three months ended 31 March 2016

(Expressed in RMB)

	Three months ended	
	31 March	
	2016	2015
	RMB'000	RMB'000
Profit for the period	25,027	5,900
Other comprehensive income for the period (before and after tax)		
Items that may be reclassified subsequently to profit or loss:		
— Exchange differences on translation into presentation currency	(46)	332
Total comprehensive income attributable to equity shareholders of the Company for the period	24,981	6,232

Unaudited Consolidated Statement of Changes in Equity

For the three months ended 31 March 2016

(Expressed in RMB)

	Attributable to equity shareholders of the Company						
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory reserves RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2015	7,921	259,976	30	19,617	1,250	159,927	448,721
Changes in equity for the three months ended 31 March 2015:							
Profit for the period	-	-	-	-	-	5,900	5,900
Other comprehensive income	-	-	-	-	332	-	332
Total comprehensive income	-	-	-	-	332	5,900	6,232
Balance at 31 March 2015 and 1 April 2015	7,921	259,976	30	19,617	1,582	165,827	454,953
Changes in equity for the nine months ended 31 December 2015:							
Profit for the period	-	-	-	-	-	69,213	69,213
Other comprehensive income	-	-	-	-	3,237	-	3,237
Total comprehensive income	-	-	-	-	3,237	69,213	72,450
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
Balance at 1 January 2016	7,921	259,976	30	28,302	4,819	226,355	527,403
Changes in equity for the three months ended 31 March 2016:							
Profit for the period	-	-	-	-	-	25,027	25,027
Other comprehensive income	-	-	-	-	(46)	-	(46)
Total comprehensive income	-	-	-	-	(46)	25,027	24,981
Balance at 31 March 2016	7,921	259,976	30	28,302	4,773	251,382	552,384

Notes to the Unaudited Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

1 CORPORATE INFORMATION

China Wood Optimization (Holding) Limited (the “Company”) was incorporated in the Cayman Islands on 6 June 2012 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time. The shares of the Company were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 6 January 2014. The condensed consolidated financial information of the Company as at and for the three months ended 31 March 2016 comprise the Company and its subsidiaries (collectively referred to as the “Group”). The principal activities of the Group are the processing, production and sale of wooden products.

2 BASIS OF PREPARATION

The unaudited condensed financial information for the three months ended 31 March 2016 (the “First Quarterly Financial Information”) has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange, and with the same accounting policies adopted in the 2015 annual financial statements of the Group, except for accounting policy changes that are expected to be reflected in the 2016 annual financial statements of the Group. Details of these changes in accounting policies are set out in Note 3.

The First Quarterly Financial Information contains unaudited consolidated statement of profit or loss, unaudited consolidated statement of profit or loss and other comprehensive income, unaudited consolidated statement of changes in equity and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial performance of the Group since the 2015 annual financial statements. The First Quarterly Financial Information and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

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

3 CHANGES IN ACCOUNTING POLICIES

The International Accounting Standards Board has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group’s financial statements:

- *Annual Improvements to IFRSs 2012–2014 Cycle*
- *Amendments to IAS 16 and IAS 38, Clarification of acceptable methods of depreciation and amortisation*
- *Amendments to IAS 27, Equity method in separate financial statements*
- *Amendments to IAS 1, Disclosure initiative*

None of these developments have had a material effect on the First Quarterly Financial Information.

Notes to the Unaudited Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

4 REVENUE

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

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

	Three months ended 31 March 2016		
	Processed Wood Panels RMB'000	Processed Finger Joint Wood Panels RMB'000	Total RMB'000
Revenue from external customers and reportable segment revenue	162,784	4,404	167,188
Reportable segment gross profit	42,958	861	43,819

	Three months ended 31 March 2015		
	Processed Wood Panels RMB'000	Processed Finger Joint Wood Panels RMB'000	Total RMB'000
Revenue from external customers and reportable segment revenue	86,839	4,968	91,807
Reportable segment gross profit	15,585	256	15,841

Notes to the Unaudited Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

5 PROFIT BEFORE TAXATION

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

(a) Finance costs:

	Three months ended 31 March	
	2016	2015
	RMB'000	RMB'000
Interest on bank and other loans	1,257	1,069
Finance charges on obligations under finance lease	1,036	–
Bank charges and other finance costs	27	12
Total finance costs	2,320	1,081
Net foreign exchange loss/(gain)	22	(347)
	2,342	734

(b) Staff costs:

	Three months ended 31 March	
	2016	2015
	RMB'000	RMB'000
Salaries, wages and other benefits	5,239	4,363
Contributions to defined contribution retirement schemes	646	445
	5,885	4,808

Notes to the Unaudited Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

5 PROFIT BEFORE TAXATION (Continued)

(c) Other items:

	Three months ended 31 March	
	2016	2015
	RMB'000	RMB'000
Depreciation and amortisation	6,315	4,696
Operating lease charges in respect of plant and buildings	315	704
Research and development costs (including costs relating to staff costs disclosed in Note 5(b))	3,537	2,218
Interest income	(768)	(205)
Cost of inventories	123,369	75,966

6 INCOME TAX

	Three months ended 31 March	
	2016	2015
	RMB'000	RMB'000
Current taxation:		
— The People's Republic of China (the "PRC") Corporate Income Tax	5,678	932
Deferred taxation:		
— Origination and reversal of temporary differences	228	204
	5,906	1,136

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

The Company and the subsidiary of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the three months ended 31 March 2016 (three months ended 31 March 2015: 16.5%).

The subsidiaries of the Group established in the PRC are subject to the PRC Corporate Income Tax rate of 25% for the three months ended 31 March 2016 (three months ended 31 March 2015: 25%). One of the subsidiaries of the Group established in the PRC obtained an approval from the tax bureau to be taxed as an advanced and new technology enterprise. Pursuant to the approval, this subsidiary is entitled to a preferential PRC Corporate Income Tax rate of 15% for a period of three years from 2015 to 2017. These PRC subsidiaries are entitled to an additional tax deductible allowance calculated at 50% of the qualified research and development costs incurred by these subsidiaries.

Notes to the Unaudited Condensed Consolidated Financial Information

(Expressed in RMB unless otherwise indicated)

7 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share for the three months ended 31 March 2016 is calculated based on the unaudited profit attributable to equity shareholders of the Company of RMB25,027,000 (three months ended 31 March 2015: RMB5,900,000) and the weighted average of 1,000,000,000 ordinary shares (three months ended 31 March 2015: 1,000,000,000 ordinary shares) in issue during the period, calculated as follows:

	Three months ended 31 March	
	2016 '000	2015 '000
Issued ordinary shares at 1 January	1,000,000	1,000,000
Weighted average number of ordinary shares at 31 March	1,000,000	1,000,000

(b) Diluted earnings per share

There was no difference between basic and diluted earnings per share as the Company did not have any dilutive potential shares outstanding during the three months ended 31 March 2016 and 2015.

8 DIVIDENDS

The directors of the Company do not recommend the payment of a dividend for the three months ended 31 March 2016 (three months ended 31 March 2015: RMBNil).

Management Discussion and Analysis

BUSINESS REVIEW

For the three months ended 31 March 2016, 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. It will be the Group’s strategy to continue to develop the Processed Wood Products with its main focus on Processed Wood Panels, in particular, the less shaved Processed Wood Panels.

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.

Processed Wood Panels include traditional Processed Wood Panels and less-shaved Processed Wood Panels. 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. Despite the fact that the less-shaved Processed Wood Panels have a lower average selling price and gross profit margin compared to that of the traditional Processed Wood Panels, the Directors believe that it is in the interest of the Group to shift its focus to less-shaved Processed Wood Panels due to the reasons that (i) it is able to enhance production efficiency; (ii) it reduces the unit cost of sales; (iii) it reduces inventory turnover days and increases sales volume and (iv) it improves price advantage over competing products.

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.

Management Discussion and Analysis

Sales and Marketing

During the three months ended 31 March 2016, the Group had three sales offices located in Beijing, Shanghai and Chengdu respectively. 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 addition, through the participation of major exhibitions and other sales promotions conducted in previous years, the Group's Processed Wood Products, especially less-shaved Processed Wood Panels, have gained extensive market recognition. It becomes more easier for the salespersons to introduce the Group's Processed Wood Products to potential customers. During the three months ended 31 March 2016, about 20 new customers had placed sales orders to the Group.

Besides, following the commence operation of the new factory located in Huai'an (the "Huai'an Factory"), Jiangsu Province, the Group's annual production capacity is expected to increase to about 300,000 cubic meters which allows the Group to accept more sales orders in 2016.

Research and development

Apart from business related development, research and development on products and technology are the key to the Group's success. The Group has strived for breakthroughs in this aspect. During the three months ended 31 March 2016, the Group carried out its research and development on the use of impregnation fluid on different tree species of poplars. Furthermore, the Group's research and development team has commenced its researches on enhancing the functions such as waterproof, bending strength and elasticity of poplar wood which are expected to further enhance the quality and variety of the Group's products.

FINANCIAL REVIEW

Revenue

The Group recorded an increase in its revenue by about RMB75.4 million or 82.1% from about RMB91.8 million for the three months ended 31 March 2015 to about RMB167.2 million for the three months ended 31 March 2016. The increase in revenue was mainly attributable to the substantial increase in revenue of less-shaved Processed Wood Panels. Furthermore, the average selling price of less-shaved Processed Wood Panels increased from about RMB3,210 per cubic meter in the first quarter of 2015 to about RMB3,418 per cubic meter in the first quarter of 2016. The average selling price of traditional Processed Wood Panels also increased from about RMB4,657 per cubic meter in the first quarter of 2015 to about RMB4,957 per cubic meter in the first quarter of 2016. Besides, the average selling price of Processed Finger Joint Wood Panels also increased from about RMB4,133 per cubic meter in the first quarter of 2015 to about RMB4,360 per cubic meter in the first quarter of 2016. The increase in the average selling prices was mainly due to the sales and marketing promotion conducted in January and February 2015 during which the Group offered its customers discount of about 8% on the average selling prices of Processed Wood Products for orders placed in January and February 2015. No such sales discount was offered to the Group's customers during the first quarter of 2016.

Management Discussion and Analysis

REVENUE BY SEGMENT

Analysis of revenue by segment is as follows:

	Three months ended 31 March					
	2016			2015		
	Volume (m ³)	RMB'000	%	Volume (m ³)	RMB'000	%
Processed Wood Panels						
— traditional	1,314	6,513	3.9%	1,823	8,489	9.2%
— less-shaved	45,714	156,271	93.5%	24,407	78,350	85.3%
Sub-total	47,028	162,784	97.4%	26,230	86,839	94.6%
Processed Finger Joint Wood Panels	1,010	4,404	2.6%	1,202	4,968	5.4%
Total	48,038	167,188	100.0%	27,432	91,807	100.0%

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

	Three months ended 31 March	
	2016	2015
	RMB	RMB
Processed Wood Panels		
— traditional	4,957	4,657
— less-shaved	3,418	3,210
Processed Finger Joint Wood Panels	4,360	4,133
Overall average	3,480	3,347

Management Discussion and Analysis

Processed Wood Panels

Revenue from sales of Processed Wood Panels increased substantially by about RMB76.0 million or 87.6% from about RMB86.8 million for the three months ended 31 March 2015 to about RMB162.8 million for the three months ended 31 March 2016. The substantial increase in sales of Processed Wood Panels was primarily due to the substantial increase in demand of the Group's less-shaved Processed Wood Panels as a result of the sales and marketing promotion conducted in previous years. The percentage of sales of less-shaved Processed Wood Panels increased from about 85.3% for the three months ended 31 March 2015 to about 93.5% for the three months ended 31 March 2016 as it was the intention of the Group to promote the sales of less-shaved Processed Wood Panels since the production of less-shaved Processed Wood Panels requires lesser production process than that of traditional Processed Wood Panels and Processed Finger Joint Wood Panels that allows the Group to utilise its production capacity more efficiently.

The sales volume of less-shaved Processed Wood Products also increased substantially by about 87.3% from about 24,407 cubic meters in the first quarter of 2015 to about 45,714 cubic meters in the first quarter of 2016.

Processed Finger Joint Wood Panels

Revenue from the sales of Processed Finger Joint Wood Panels decreased by about 12.0% from RMB5.0 million for the three months ended 31 March 2015 to RMB4.4 million for the three months ended 31 March 2016. The decrease was mainly a result of the Group's intention to reduce the sales of the Group's Processed Finger Joint Wood Panels and the Group focused on the sales of less-shaved Processed Wood Panels, as the production of less-shaved Processed Wood Panels requires lesser production process that allows the Group to utilise its production capacity more efficiently. As a result, the sales volume of Processed Finger Joint Wood Panels decreased by about 16.0% from about 1,202 cubic meters in the first quarter of 2015 to about 1,010 cubic meters in the first quarter of 2016.

Cost of Sales

Cost of sales of the Group increased substantially by about RMB47.4 million or 62.4%, from about RMB76.0 million for the three months ended 31 March 2015 to about RMB123.4 million for the three months ended 31 March 2016. The increase was mainly a result of the increase in the Group's sales volume as discussed under the paragraph headed "Revenue" above.

Gross Profit

Gross profit of the Group increased substantially by about 177.2% or RMB28.0 million from about RMB15.8 million for the three months ended 31 March 2015 to about RMB43.8 million for the three months ended 31 March 2016. The increase in gross profit of the Group was mainly attributable to the increase in average selling price and the increase in sales volume of the Group's products.

Management Discussion and Analysis

GROSS PROFIT MARGIN BY SEGMENT

The overall gross profit margin of the Group increased from about 17.3% for the three months ended 31 March 2015 to about 26.2% for the three months ended 31 March 2016. Such increase was mainly attributable to the increase in the average selling price of the Group's Processed Wood Products by about 4.0% for the three months ended 31 March 2016 as compared with its average selling price thereof for the three months ended 31 March 2015. The increase in the average selling price of the Group's Processed Wood Products was mainly a result of the 8% sales discount offered to the Group's customers who placed sales orders in January and February 2015 but no such sales discount was offered during the first quarter of 2016.

Processed Wood Panels

Gross profit margin of Processed Wood Panels increased substantially from about 17.9% for the three months ended 31 March 2015 to about 26.4% for the three months ended 31 March 2016. Such increase was mainly attributable to the sales and marketing promotion conducted in January and February 2015 but there was no such sales promotion conducted in the first quarter of 2016.

Processed Finger Joint Wood Panels

Gross profit margin of Processed Finger Joint Wood Panels also increased substantially from about 5.2% for the three months ended 31 March 2015 to about 19.6% for the three months ended 31 March 2016. Such increase was mainly attributable to the increase in its average selling price and the increase in the output ratio of Processed Finger Joint Wood Panels due to the improvement in production process which resulted in the decrease in average unit cost of sales.

The Group's Processed Finger Joint Wood Panels have a lower gross profit margin than that of the Processed Wood Panels because the Processed Finger Joint Wood Panels are made of cut-offs produced in the manufacturing processes of Processed Wood Panels, which are in irregular shapes and sizes. Processing these cut-offs requires more production processes, and more production materials and labour are consumed in the production process. Therefore, the average cost of sales per cubic meter of the Processed Finger Joint Wood Panels sold was higher than that of the Processed Wood Panels but the average selling price of the Processed Finger Joint Wood Panels is in generally lower than that of the traditional Processed Wood Panels which resulted in a lower gross profit margin.

Other Income

Other income comprises rental income, income from government grants and interest income. Other income of the Group increased by about RMB0.4 million from about RMB1.0 million for the three months ended 31 March 2015 to about RMB1.4 million for the three months ended 31 March 2016. The increase was mainly due to the increase in time deposits interest income by about RMB0.6 million for the three months ended 31 March 2016 as compared to the corresponding period in 2015. Such increase was partially offset by the decrease in rental income of about RMB0.2 million in the first quarter of 2016 since there was only one tenant entered into the lease agreement with Group in the first quarter of 2016 but the Group leased its investment properties to two tenants in the corresponding period in 2015.

Management Discussion and Analysis

Selling Expenses

The Group's selling expenses decreased by about 36.4% or RMB0.4 million from about RMB1.1 million for the three months ended 31 March 2015 to about RMB0.7 million for the three months ended 31 March 2016. Such decrease was principally due to the decrease in rental expenses of the sales offices located in Beijing, Shanghai and Chengdu. It is the intention of the Group to move its sales offices from the downtown to the places nearby the construction material markets where the rental cost is cheaper. Besides, the salespersons can also obtain first hand market information and reach the potential customers more easily if their offices are located nearby the construction material markets.

Administrative Expenses

The Group's administrative expenses increased by about 41.3% or RMB3.3 million from about RMB8.0 million for the three months ended 31 March 2015 to about RMB11.3 million for the three months ended 31 March 2016. The increase was mainly due to the increase in staff cost, research and development expenses and other tax expenses. The staff cost increased by about RMB0.6 million from about RMB1.6 million for the three months ended 31 March 2015 to about RMB2.2 million for the three months ended 31 March 2016. The increase was mainly due to the increase in number of administrative staff employed for the Huai'an Factory which commenced operation in October 2015. The research and development expenses increased by about RMB1.3 million from about RMB2.4 million for the three months ended 31 March 2015 to about RMB3.7 million for the three months ended 31 March 2016. The increase was mainly attributable to the research projects conducted in the three months ended 31 March 2016 consumed more wood materials than the corresponding period in 2015. The Group's other tax expense increased by about RMB0.6 million from about RMB0.9 million for the three months ended 31 March 2015 to about RMB1.5 million for the three months ended 31 March 2016. Such increase was mainly due to the substantial increase in sales tax surcharges as a result of the substantial increase in value-added tax paid and the increase in the land use tax and property tax in the first quarter of 2016.

Finance Costs

The Group's finance costs increased from about RMB0.7 million for the three months ended 31 March 2015 to about RMB2.3 million for the three months ended 31 March 2016. The increase was mainly attributable to the increase in interest expense on finance leases entered into with a financial institution for the acquisition of certain production machineries used by the Huai'an Factory in the fourth quarter of 2015. In addition, the Group recorded an exchange gain of about RMB0.3 million for the three months ended 31 March 2015 but there was an exchange loss of about RMB22,000 for the corresponding period in 2016 mainly arising from the conversion of HK\$ into RMB.

Income Tax Expenses

The Group's income tax expenses substantially increased from about RMB1.1 million for the three months ended 31 March 2015 to about RMB5.9 million for the three months ended 31 March 2016. The increase was primarily attributable to the increase in profit before taxation from about RMB7.0 million for the three months ended 31 March 2015 to about RMB30.9 million for the three months ended 31 March 2016.

Management Discussion and Analysis

Profit for the Period

As a combined result of the factors discussed above, the Group's profit for the period increased substantially from about RMB5.9 million for the three months ended 31 March 2015 to about RMB25.0 million for the three months ended 31 March 2016. In addition, the Group's net profit margin increased from about 6.4% for the three months ended 31 March 2015 to about 15.0% for the three months ended 31 March 2016. Such increase was mainly due to the increase in the Group's gross profit margin which was partially offset by the increase in the administrative expenses, finance costs and income tax expenses for the three months ended 31 March 2016.

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

As at 31 March 2016, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as follows:

(i) The Company

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

(ii) Associated corporation of the Company

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

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

Management Discussion and Analysis

Save as disclosed above, as at 31 March 2016, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 March 2016, the following persons (other than Directors or chief executives of the Company) were interested in 5% or more of the issued share capital of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the GEM Listing Rules on the Stock Exchange:

Name of Shareholder	Nature of interest	Number of Shares held	Approximate percentage of shareholding in the Company
Brilliant Plan Holdings Limited (Note 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 March 2016, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

OUTLOOK

The Group intends to increase its production capacity and further promote the market recognition of its Processed Wood Products in the PRC. To achieve this, the Group will 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 factory located in Huai'an.

Management Discussion and Analysis

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the three months ended 31 March 2016.

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

As at 31 March 2016, none of the Directors, controlling shareholders of the Company or any of their respective close associates had any business or interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group and any other conflicts of interests, which is required to be disclosed under Rule 11.04 of the GEM Listing Rules.

INTEREST OF COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed Guotai Junan Capital Limited ("Guotai Junan") to be the compliance adviser. As informed by Guotai Junan, neither Guotai Junan nor any of its directors or employees or associates, has or may, any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities), which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules (except for the compliance adviser agreement entered into between the Company and Guotai Junan) as at 31 March 2016.

CORPORATE GOVERNANCE PRACTICES

The Board is of the view that the Company has complied with all applicable code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules during the three months ended 31 March 2016.

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

The Company has adopted the Model Code set out in Appendix 15 to the GEM Listing Rules as the code of conduct governing dealings by all Directors in the securities of the Company on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Specific enquiries have been made with all Directors, who have confirmed that, during the three months ended 31 March 2016, they were in compliance with the required provisions set out in the Model Code. All Directors declared that they have complied with the required standard of dealings as set out in the Model Code throughout the period during the three months ended 31 March 2016.

DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2016 (2015: Nil).

DIRECTORS' INTERESTS IN CONTRACTS

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

Management Discussion and Analysis

AUDIT COMMITTEE

The Company has established its audit committee with terms of reference in compliance with the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee has three members comprising the Company's three independent non-executive Directors, namely Mr. Lau Ying Kit, Mr. Pu Junwen and Mr. Zhang Dali. The chairman of the audit committee is Mr. Lau Ying Kit. The Audit Committee has reviewed the unaudited consolidated financial statements of the Group for the three months ended 31 March 2016.

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

Hong Kong, 11 May 2016

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

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