2016
INTERIM 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.

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

Financial Highlights

For the six months ended 30 June 2016, operating results of the Group were as follows:

— Revenue for the six months ended 30 June 2016 reached about RMB294.3 million (2015: RMB240.2 million), representing an increase of 22.5% as compared to the same period of previous financial year;

— Profit for the six months ended 30 June 2016 amounted to about RMB36.7 million (2015: RMB24.5 million), representing an increase of 49.8% as compared to the same period of previous financial year;

— Basic and diluted earnings per share for the six months ended 30 June 2016 based on weighted average number of ordinary shares of about 1,000,000,000 shares (2015: 1,000,000,000 shares) in issue was about RMB3.7 cents (2015: RMB2.4 cents); and

— The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2016 (2015: Nil).

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2016 — unaudited
(Expressed in Renminbi ("RMB"))

		Three months ended 30 June		Six months ended 30 June	
		2016	2015	**2016**	2015
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue	4	**127,138**	148,373	**294,326**	240,180
Cost of sales		**(95,295)**	(109,173)	**(218,664)**	(185,139)
Gross profit	4	**31,843**	39,200	**75,662**	55,041
Other income		**2,231**	1,821	**3,653**	2,805
Selling expenses		**(782)**	(1,992)	**(1,488)**	(3,094)
Administrative expenses		**(15,925)**	(16,348)	**(27,185)**	(24,301)
Profit from operations		**17,367**	22,681	**50,642**	30,451
Finance costs	5(a)	**(2,156)**	(883)	**(4,498)**	(1,617)
Profit before taxation	5	**15,211**	21,798	**46,144**	28,834
Income tax	6	**(3,512)**	(3,229)	**(9,418)**	(4,365)
Profit attributable to equity shareholders of the Company for the period		**11,699**	18,569	**36,726**	24,469
Earnings per share					
— Basic and diluted (RMB)	7	**0.012**	0.019	**0.037**	0.024

The notes on pages 8 to 26 form part of this interim financial report.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2016 — unaudited
(Expressed in RMB)

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit for the period	**11,699**	18,569	**36,726**	24,469
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	**216**	(396)	**170**	(64)
Total comprehensive income attributable to equity shareholders of the Company for the period	**11,915**	18,173	**36,896**	24,405

The notes on pages 8 to 26 form part of this interim financial report.

Consolidated Statement of Financial Position

At 30 June 2016 — unaudited
(Expressed in RMB)

	Note	**At 30 June 2016 RMB'000**	At 31 December 2015 RMB'000
Non-current assets			
Property, plant and equipment	8	**324,066**	313,146
Investment properties	9	**7,150**	7,383
Lease prepayments	10	**55,552**	54,270
Intangible asset		**3**	18
Other receivables	13	**4,713**	3,992
Deferred tax assets	20	**3,615**	864
		395,099	379,673
Current assets			
Inventories	11	**115,096**	84,832
Trade receivables	12	**20,211**	16,617
Prepayments, deposits and other receivables	13	**45,972**	19,664
Prepaid income tax		**–**	21
Cash and cash equivalents	14	**65,141**	117,312
Time deposits	15	**87,500**	42,300
		333,920	280,746
Current liabilities			
Trade and bills payables	16	**36,101**	–
Receipts in advance		**593**	198
Accrued expenses and other payables	17	**40,908**	52,843
Bank and other loans	18(a)	**7,866**	37,169
Obligations under finance lease	19	**5,740**	7,358
Income tax payable		**1,146**	–
		92,354	97,568
Net current assets		**241,566**	183,178
Total assets less current liabilities		**636,665**	562,851
Non-current liabilities			
Bank and other loans	18(b)	**49,467**	13,458
Obligations under finance lease	19	**8,760**	18,042
Deferred income		**14,139**	3,948
		72,366	35,448
NET ASSETS		**564,299**	527,403
CAPITAL AND RESERVES	21		
Share capital		**7,921**	7,921
Reserves		**556,378**	519,482
TOTAL EQUITY		**564,299**	527,403

The notes on pages 8 to 26 form part of this interim financial report.

Consolidated Statement of Changes In Equity

For the six months ended 30 June 2016 — unaudited
(Expressed in RMB)

	Attributable to equity shareholders of the Company						
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory reserves RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2015	7,921	259,976	30	19,617	1,250	159,927	448,721
Changes in equity for the six months ended 30 June 2015:							
Profit for the period	–	–	–	–	–	24,469	24,469
Other comprehensive income	–	–	–	–	(64)	–	(64)
Total comprehensive income	–	–	–	–	(64)	24,469	24,405
Balance at 30 June 2015 and 1 July 2015	7,921	259,976	30	19,617	1,186	184,396	473,126
Changes in equity for the six months ended 31 December 2015:							
Profit for the period	–	–	–	–	–	50,644	50,644
Other comprehensive income	–	–	–	–	3,633	–	3,633
Total comprehensive income	–	–	–	–	3,633	50,644	54,277
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 six months ended 30 June 2016:							
Profit for the period	**–**	**–**	**–**	**–**	**–**	**36,726**	**36,726**
Other comprehensive income	**–**	**–**	**–**	**–**	**170**	**–**	**170**
Total comprehensive income	**–**	**–**	**–**	**–**	**170**	**36,726**	**36,896**
Balance at 30 June 2016	**7,921**	**259,976**	**30**	**28,302**	**4,989**	**263,081**	**564,299**

The notes on pages 8 to 26 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2016 — unaudited
(Expressed in RMB)

	Note	Six months ended 30 June 2016 RMB'000	2015 RMB'000
Operating activities			
Cash generated from operations		**38,889**	36,470
Income tax paid		**(11,002)**	(4,372)
Net cash generated from operating activities		**27,887**	32,098
Investing activities			
Payments for purchase of property, plant and equipment		**(21,987)**	(45,270)
Payments for land use right		**(24,588)**	–
Increase in time deposits	15	**(45,200)**	–
Government grants received		**11,365**	–
Other cash flows arising from investing activities		**847**	625
Net cash used in investing activities		**(79,563)**	(44,645)
Financing activities			
Proceeds from new bank loans		**40,000**	–
Repayment of bank and other loans		**(33,294)**	(2,000)
Capital element of finance lease rentals paid		**(2,774)**	–
Interest element of finance lease rentals paid		**(1,494)**	–
Other cash flows arising from financing activities		**(3,034)**	(2,327)
Net cash used in financing activities		**(596)**	(4,327)
Net decrease in cash and cash equivalents		**(52,272)**	(16,874)
Cash and cash equivalents at 1 January	14	**117,312**	202,079
Effect of foreign exchange rate changes		**101**	(1)
Cash and cash equivalents at 30 June	14	**65,141**	185,204

The notes on pages 8 to 26 form part of this interim financial report.

1 CORPORATE INFORMATION

China Wood Optimization (Holding) Limited (the "Company") was incorporated in the Cayman Islands on 6 June 2012 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time. The shares of the Company were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 6 January 2014. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 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

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the "IASB"). It was authorised for issue on 11 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited. The interim financial report which comprises the consolidated statement of financial position of the Company as of 30 June 2016 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes, has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410 ("HKSRE 2410"), *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. The consolidated statement of profit or loss and statement of profit or loss and other comprehensive income for the three month periods ended 30 June 2016 and 2015 and the related explanatory notes have not been reviewed in accordance with HKSRE 2410. KPMG's independent review report to the board of directors of the Company is included on page 27.

The financial information relating to the financial year ended 31 December 2015 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2015 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 10 March 2016.

3 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 amendments are relevant to the Group's interim financial report:

- *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 how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 SEGMENT REPORTING

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

- Processed Wood Panels: this segment produces and sells wooden panels which have gone through the Group's self-developed wood processing procedure, and also the shaving and sanding in accordance with the specifications of the customers.
- Processed Finger Joint Wood Panels: this segment sells wooden panels produce from the pressing and laminating cutoffs arise in 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 six months ended 30 June 2016 and 2015. 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 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 is set out below.

	Six months ended 30 June 2016		
	Processed Wood Panels RMB'000	**Processed Finger Joint Wood Panels RMB'000**	**Total RMB'000**
Revenue from external customers and reportable segment revenue	**288,650**	**5,676**	**294,326**
Reportable segment gross profit	**74,452**	**1,210**	**75,662**

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

	Three months ended 30 June 2016		
	Processed Wood Panels RMB'000	**Processed Finger Joint Wood Panels RMB'000**	**Total RMB'000**
Revenue from external customers and reportable segment revenue	**125,866**	**1,272**	**127,138**
Reportable segment gross profit	**31,494**	**349**	**31,843**

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

4 SEGMENT REPORTING (Continued)

(ii) Geographic information

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

5 PROFIT BEFORE TAXATION

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

(a) Finance costs:

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Interest on bank and other loans	**1,683**	1,170	**2,940**	2,239
Finance charges on obligations under finance lease	**458**	–	**1,494**	–
Bank charges and other finance costs	**14**	9	**41**	21
Total finance costs	**2,155**	1,179	**4,475**	2,260
Net foreign exchange loss/(gain)	**1**	(296)	**23**	(643)
	2,156	883	**4,498**	1,617

(b) Staff costs:

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Salaries, wages and other benefits	**6,758**	4,965	**11,997**	9,328
Contributions to defined contribution retirement schemes	**664**	546	**1,310**	991
	7,422	5,511	**13,307**	10,319

5 PROFIT BEFORE TAXATION (Continued)

(c) Other items:

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Depreciation and amortisation	**6,671**	4,706	**12,986**	9,402
Net loss on disposal of property, plant and equipment	**–**	28	**–**	28
Operating lease charges in respect of plant and buildings	**244**	750	**559**	1,454
Research and development costs (including costs relating to staff costs disclosed in Note 5(b))	**6,855**	7,873	**10,392**	10,091
Interest income	**(79)**	(229)	**(847)**	(434)
Cost of inventories (Note 11(b))	**95,295**	109,173	**218,664**	185,139

6 INCOME TAX

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current taxation:				
— The PRC Corporate Income Tax	**6,491**	3,285	**12,169**	4,217
Deferred taxation (Note 20):				
— Origination and reversal of temporary differences	**(2,979)**	(56)	**(2,751)**	148
	3,512	3,229	**9,418**	4,365

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

The Company and the subsidiary of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the six months ended 30 June 2016 (six months ended 30 June 2015: 16.5%). No provision for Hong Kong Profits Tax has been made, as neither the Company nor the subsidiary of the Group incorporated in Hong Kong have assessable profits which are subject to Hong Kong Profits Tax for the six months ended 30 June 2016 (six months ended 30 June 2015: RMBNil).

6 INCOME TAX (Continued)

The subsidiaries of the Group established in the PRC are subject to the PRC Corporate Income Tax rate of 25% for the six months ended 30 June 2016 (six months ended 30 June 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. In addition to the preferential PRC Corporate Income Tax rate, this subsidiary is also entitled to an additional tax deductible allowance calculated at 50% of the qualified research and development costs incurred by this subsidiary.

7 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share for the six months ended 30 June 2016 is calculated based on the profit attributable to equity shareholders of the Company of RMB36,726,000 (six months ended 30 June 2015: RMB24,469,000) and the weighted average of 1,000,000,000 ordinary shares (six months ended 30 June 2015: 1,000,000,000 ordinary shares) in issue during the interim period, calculated as follows:

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	**2016**	2015
	'000	'000	**'000**	'000
Issued ordinary shares at 1 April/1 January	**1,000,000**	1,000,000	**1,000,000**	1,000,000
Weighted average number of ordinary shares at 30 June	**1,000,000**	1,000,000	**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 six months ended 30 June 2016 and 2015.

8 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 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 9)	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 9)	(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
Cost:					
At 1 January 2016	179,545	152,699	10,079	44,016	386,339
Additions	1,191	1,709	1,041	19,485	23,426
Transfer in/(out)	42,981	9,313	–	(52,294)	–
At 30 June 2016	223,717	163,721	11,120	11,207	409,765
Accumulated depreciation:					
At 1 January 2016	(20,680)	(48,256)	(4,257)	–	(73,193)
Charge for the period	(4,174)	(7,671)	(661)	–	(12,506)
At 30 June 2016	(24,854)	(55,927)	(4,918)	–	(85,699)
Net book value:					
At 30 June 2016	198,863	107,794	6,202	11,207	324,066

8 PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Reconciliation of carrying amount (Continued)

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. The directors are of the opinion that the Group is entitled to lawfully occupy or use these properties. At 30 June 2016, the Group has obtained the ownership certificates for all the properties.

(b) Assets sold and leased back

In September 2015, Hebei AMS Wood Processing Co., Ltd. ("Hebei AMS"), one of the subsidiaries of the Group, entered into an arrangement with a financial leasing institution in which Hebei AMS sold certain equipment to this institution at a net consideration of RMB22,163,000 and then leased back with scheduled lease payments together with an option to buy back these equipment at a price of RMB1 when the lease term is expired in September 2018. Such arrangement is accounted for as an interest-bearing borrowing, of which the balance at 30 June 2016 is RMB17,333,000 (31 December 2015: RMB20,627,000), secured by the relevant machinery and equipment, of which the net book value at 30 June 2016 is RMB30,903,000 (31 December 2015: RMB33,175,000). Detailed information of this borrowing is disclosed in Note 18(b)(ii).

(c) Assets held under finance lease

In November 2015, Jiangsu AMS Wood Industry Company Limited ("Jiangsu AMS"), 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. In April 2016, Jiangsu AMS signed a supplementary agreement with this institution and adjusted the amount of assets held under finance lease. At 30 June 2016, the net book value of machinery and equipment held under finance lease is RMB18,142,000 (31 December 2015: RMB26,614,000).

9 INVESTMENT PROPERTIES

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Cost:		
At 1 January	**9,783**	19,355
Reclassification to property, plant and equipment (Note 8)	**–**	(9,572)
At 30 June/31 December	**9,783**	9,783
Accumulated amortisation:		
At 1 January	**(2,400)**	(3,224)
Reclassification to property, plant and equipment (Note 8)	**–**	1,553
Charge for the period/year	**(233)**	(729)
At 30 June/31 December	**(2,633)**	(2,400)
Net book value:		
At 30 June/31 December	**7,150**	7,383

Notes:

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

(ii) Investment properties leased out under operating leases

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

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

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Within 1 year	**1,064**	266
After 1 year but within 5 years	**798**	–
	1,862	266

10 LEASE PREPAYMENTS

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Cost:		
At 1 January	**55,859**	16,910
Additions	**1,514**	38,949
At 30 June/31 December	**57,373**	55,859
Accumulated amortisation:		
At 1 January	**(1,589)**	(1,261)
Charge for the period/year	**(232)**	(328)
At 30 June/31 December	**(1,821)**	(1,589)
Net book value:		
At 30 June/31 December	**55,552**	54,270

Lease prepayments represented land use right premiums paid or to be paid by the Group for land situated in the PRC, with a lease period of 50 years. At 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. The directors are of the opinion that the Group is entitled to lawfully occupy or use these land use rights. At 30 June 2016, the Group has obtained the ownership certificates for all the land use rights.

11 INVENTORIES

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

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Raw materials	**39,855**	38,091
Work in progress	**20,586**	21,441
Finished goods	**54,655**	25,300
	115,096	84,832

11 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 period is as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Carrying amount of inventories sold	**218,664**	185,139

12 TRADE RECEIVABLES

	At 30 June 2016	At 31 December 2015
	RMB'000	RMB'000
Trade receivables from third parties	**20,211**	16,617

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

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

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

	At 30 June 2016	At 31 December 2015
	RMB'000	RMB'000
Aged within 1 month, neither past due nor impaired	**20,211**	16,587
Aged from 1 to 2 months, neither past due nor impaired	**–**	30
	20,211	16,617

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

13 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Prepayments for purchase of inventories	**36,679**	12,235
Prepaid value added tax	**2,245**	3,661
Others	**7,048**	3,768
Short-term prepayment, deposits and other receivables	**45,972**	19,664
Add: long-term other receivables		
Deposits for other loan and obligations under finance lease	**4,713**	3,992
	50,685	23,656

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

14 CASH AND CASH EQUIVALENTS

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Cash at bank and on hand	**65,141**	117,312

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.

15 TIME DEPOSITS

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Pledged time deposits with original maturity over 3 months (Notes (i) and (ii))	**55,500**	42,300
Other time deposits with original maturity over 3 months	**32,000**	–
	87,500	42,300

Notes:

(i) At 30 June 2016, time deposit of RMB20,000,000 (31 December 2015: 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 on 24 August 2016.

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.

The above pledge for bank loans constitute issuance of guarantees to third parties. Further details are set out in Note 25.

(ii) At 30 June 2016, time deposits of RMB35,500,000 (31 December 2015: RMBNil) has been pledged for bills payable to third party suppliers of the Group. The pledged time deposits are expected to be released within 6 months.

16 TRADE AND BILLS PAYABLES

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Trade payables to third parties	**601**	–
Bills payable	**35,500**	–
	36,101	–

16 TRADE AND BILLS PAYABLES (Continued)

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

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Due within 1 month or on demand	**601**	–
Due within 1 to 3 months	**25,500**	–
Due within 3 to 6 months	**10,000**	–
	36,101	–

All of the trade and bills payables at 30 June 2016 are expected to be settled within one year or are repayable on demand.

17 ACCRUED EXPENSES AND OTHER PAYABLES

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Payables for construction and purchase of property, plant and equipment	**28,150**	18,585
Payables for land use right premiums	**2,321**	25,395
Payables for staff related costs	**4,349**	4,619
Payables for miscellaneous taxes	**362**	1,377
Payables for interest expenses	**–**	53
Others	**4,405**	2,062
Financial liabilities measured at amortised cost	**39,587**	52,091
Deferred income	**1,321**	752
	40,908	52,843

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

18 BANK AND OTHER LOANS

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

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Short-term bank loan:		
— secured (Note (i))	**–**	30,000
Add: current portion of long-term other loan (Note 18(b))	**7,866**	7,169
	7,866	37,169

Note (i): At 30 June 2016, the aggregate carrying value of the secured property, plant and equipment, investment properties and land use right of the Group for the short-term bank loan is RMBNil (31 December 2015: RMB45,920,000).

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

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Long-term bank loan:		
— secured (Note (i))	**40,000**	–
Long-term other loan from a financial leasing institution		
— secured (Note (ii))	**17,333**	20,627
Less: current portion of long-term other loan (Note 18(a))	**(7,866)**	(7,169)
	49,467	13,458

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

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Within 1 year or on demand	**7,866**	7,169
After 1 year but within 2 years	**49,467**	8,629
After 2 years but within 5 years	**–**	4,829
	57,333	20,627

18 BANK AND OTHER LOANS (Continued)

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

Notes:

(i) At 30 June 2016, the aggregate carrying value of the secured property, plant and equipment and land use right of the Group for the long-term bank loan is RMB64,217,000 (31 December 2015: RMBNil).

(ii) At 30 June 2016, the aggregate carrying value of the secured property, plant and equipment of the Group for the long-term other loan is RMB30,903,000 (31 December 2015: RMB33,175,000).

(c) At 30 June 2016, the Group's banking facility amounted to RMB60,000,000 (31 December 2015: RMB60,000,000) was utilised to the extent of RMB25,500,000 (31 December 2015: RMB30,000,000).

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

19 OBLIGATIONS UNDER FINANCE LEASE

The Group had obligations under finance lease repayable as follows:

	At 30 June 2016		At 31 December 2015	
	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	**5,740**	**7,987**	7,358	11,111
After 1 year but within 2 years	**6,850**	**7,987**	9,688	12,059
After 2 years but within 5 years	**1,910**	**1,997**	8,354	9,044
	8,760	**9,984**	18,042	21,103
	14,500	**17,971**	25,400	32,214
Less: total future finance charges		**(3,471)**		(6,814)
Present value of lease obligations		**14,500**		25,400

20 DEFERRED TAX ASSETS AND LIABILITIES

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

Deferred tax arising from:	Assets — Accrued expenses, and government grants and related amortisation RMB'000	Liabilities — Fair value adjustments on property, plant and equipment and lease prepayments and depreciation and amortisation in connection with the acquisition of a subsidiary RMB'000	Net RMB'000
At 1 January 2015	1,199	(67)	1,132
(Charged)/credited to the consolidated statement of profit or loss	(280)	12	(268)
At 31 December 2015	919	(55)	864
Credited to the consolidated statement of profit or loss (Note 6)	2,745	6	2,751
At 30 June 2016	**3,664**	**(49)**	**3,615**

21 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: RMBNil).

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

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

22 MATERIAL RELATED PARTY TRANSACTIONS

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

Key management personnel remuneration

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Short-term employee benefits	**1,484**	1,449
Retirement schemes contributions	**61**	64
	1,545	1,513

23 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The Group does not have any financial instruments measured at fair value at 30 June 2016 and 31 December 2015.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 30 June 2016 and 31 December 2015.

24 COMMITMENTS

(a) Capital commitments

At 30 June 2016, the outstanding capital commitments of the Group not provided for in the interim financial report were summarised as follows:

	At 30 June	At 31 December
	2016	2015
	RMB'000	RMB'000
Commitments in respect of buildings, and machinery and equipment		
— Contracted for	**–**	4,950
— Authorised but not contracted for	**33,020**	53,108
	33,020	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 30 June 2016 not provided for in the interim financial report represent the commitments in respect of the acquisition of machinery and equipment by the New Subsidiary.

24 COMMITMENTS (Continued)

(b) Operating lease commitments

At 30 June 2016, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Within 1 year	**612**	336

25 CONTINGENT LIABILITIES

At 30 June 2016, the Group has the following guarantees:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Guarantee for bank loan of a third party supplier	**–**	22,300
Guarantee for bank loan of a third party customer	**20,000**	20,000
	20,000	42,300

Further details of the guarantees are set out in Note 15.

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

INTRODUCTION

We have reviewed the interim financial report set out on pages 3 to 26 which comprises the consolidated statement of financial position of China Wood Optimization (Holding) Limited as at 30 June 2016 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

OTHER MATTER

Without modifying our review conclusion, we draw to your attention that the consolidated statement of profit or loss and statement of profit or loss and other comprehensive income for the three months ended 30 June 2016 and 2015 and the related explanatory notes have not been reviewed in accordance with HKSRE 2410.

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

11 August 2016

BUSINESS REVIEW

For the six months ended 30 June 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").

The Group uses its processing procedure ("Wood Processing Procedure") to process all its Processed Wood Products. The Wood Processing Procedure involves raw wood panels to pass through an impregnation procedure. During this procedure the Group applies its self-developed impregnation fluid into the wood. Such impregnation fluid is made with biological synthetic resin technologies developed by the Group. 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, anti-corrosiveness, 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

The Group's principal products are processed wood panels ("Processed Wood Panels"). They are 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 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. Processed Finger Joint Wood Panels are made from cutoffs and small pieces produced during the trimming process of Processed Wood Panels. These cutoffs and small pieces are laminated, pressed and further processed to form Processed Finger Joint Wood Panels. They are in the form of standard-sized boards of wooden panels, and are generally used to produce wooden furniture, doors and window frames.

Sales and Marketing

During the six months ended 30 June 2016, the Group continued to promote the Processed Wood Products, in particular the less-shaved Processed Wood Panels, through its sales offices. In addition, through the participation of major exhibitions and other sales promotions conducted in previous years, the Group's less-shaved Processed Wood Panels have gained extensive market recognition. It becomes more easier for the salespersons to introduce it to potential customers. During the six months ended 30 June 2016, about 29 new customers had placed sales orders to the Group.

Besides, following the commercial production of the new factory located in Huai'an (the "Huai'an Factory") in June 2016, 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 six months ended 30 June 2016, the Group's research and development team has successfully modified the formula of impregnation fluid in order to cut down its production cost. Due to the technology breakthrough, the average unit cost of impregnation fluid has been reduced from about RMB1,891/ton for the six months ended 30 June 2015 to about RMB1,656/ton for the six months ended 30 June 2016. In addition, the Group's research and development team continued to carry out its research and development on the use of impregnation fluid on different tree species of poplars and 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.

Acquisition of a piece of land

Reference is made to an announcement of the Company dated 21 June 2016 (the "Announcement") in relation to the receipt of a confirmation dated 20 June 2016 issued by the Huai'an Land Resources Bureau about acquisition of a piece of land (the "Adjacent Land") at a consideration of about RMB22.8 million. The Adjacent Land is adjacent to a piece of land (the "Original Land") acquired by the Group in December 2015. Both the Original Land and the Adjacent Land are situated at the west of the Kunlun Road and the south of Longteng Road (昆倫路西側，龍騰路南側) in Huai'an Industrial Zone, Huai'an City, Jiangsu Province, the PRC. The aggregate site area of the Original Land and the Adjacent Land is about 125,000 sq.m. and will be used by the Group for the construction of its existing production plant. For details, please refer to the Announcement.

OUTLOOK

The Group intends to increase its production capacity and further promote the market recognition of its Processed Wood Products especially the less-shaved Processed Wood Panels in the PRC. To achieve this, the Group will continue to expand the application spectrum and improve the quality of its Processed Wood Products, enhance and strengthen its expertise and know-how for the development of its products by hiring more research and development specialists and expand its sales volume through its sales offices and Huai'an Factory.

FINANCIAL REVIEW

Revenue

The Group recorded an increase in its revenue by about RMB54.1 million or 22.5% from about RMB240.2 million for the six months ended 30 June 2015 to about RMB294.3 million for the six months ended 30 June 2016. The increase in revenue was mainly attributable to the increase in revenue of less-shaved Processed Wood Panels. Furthermore, the average selling prices of less-shaved Processed Wood Panels also increased from about RMB3,339/m^3 for the six months ended 30 June 2015 to about RMB3,421/m^3 for the six months ended 30 June 2016. The average selling price of traditional Processed Wood Panels also increased from about RMB4,806/m^3 for the six months ended 30 June 2015 to about RMB4,957/m^3 for the six months ended 30 June 2016. Besides, the average selling prices of Processed Finger Joint Wood Panels also increased from about RMB4,259/m^3 for the six months ended 30 June 2015 to about RMB4,359/m^3 for the six months ended 30 June 2016. The increase in the average selling prices was mainly due to the Group offered to its customers discount of about 8% on the average selling prices of Processed Wood Products for orders placed in January and February 2015. However, there was no such sales discount offered to the Group's customers during the six months ended 30 June 2016.

REVENUE BY SEGMENT

Analysis of revenue by segment is as follows:

	Three months ended 30 June						**Six months ended 30 June**					
	2016			2015			**2016**			2015		
	Volume (m^3)	**RMB'000**	**%**	Volume (m^3)	RMB'000	%	**Volume (m^3)**	**RMB'000**	**%**	Volume (m^3)	RMB'000	%
Processed Wood Panels:												
— traditional	**672**	**3,331**	**2.6**	1,807	8,958	6.0	**1,986**	**9,844**	**3.4**	3,630	17,447	7.3
— less-shaved	**35,787**	**122,535**	**96.4**	39,256	134,196	90.5	**81,501**	**278,806**	**94.7**	63,663	212,546	88.5
Sub-total	**36,459**	**125,866**	**99.0**	41,063	143,154	96.5	**83,487**	**288,650**	**98.1**	67,293	229,993	95.8
Processed Finger Joint Wood Panels	**292**	**1,272**	**1.0**	1,190	5,219	3.5	**1,302**	**5,676**	**1.9**	2,392	10,187	4.2
Total	**36,751**	**127,138**	**100.0**	42,253	148,373	100.0	**84,789**	**294,326**	**100.0**	69,685	240,180	100.0

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

	Three months ended 30 June		**Six months ended 30 June**	
	2016	2015	**2016**	2015
	RMB	RMB	**RMB**	RMB
Processed Wood Panels	**3,452**	3,486	**3,457**	3,418
— traditional	**4,957**	4,957	**4,957**	4,806
— less-shaved	**3,424**	3,418	**3,421**	3,339
Processed Finger Joint Wood Panels	**4,356**	4,386	**4,359**	4,259
Overall average	**3,459**	3,512	**3,471**	3,447

Processed Wood Panels

Revenue from sales of Processed Wood Panels increased by about RMB58.7 million or 25.5% from about RMB230.0 million for the six months ended 30 June 2015 to about RMB288.7 million for the six months ended 30 June 2016. The increase in sales of Processed Wood Panels was primarily due to the 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 88.5% for the six months ended 30 June 2015 to about 94.7% for the six months ended 30 June 2016 as the Group intends 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 allowed the Group to utilise its production capacity more efficiently.

The sales volume of less-shaved Processed Wood Panels also increased by about 28.0% from about 63,663 m^3 for the six months ended 30 June 2015 to about 81,501 m^3 for the six months ended 30 June 2016.

Processed Finger Joint Wood Panels

Revenue from the sales of Processed Finger Joint Wood Panels decreased substantially by about RMB4.5 million or 44.1% from RMB10.2 million for the six months ended 30 June 2015 to RMB5.7 million for the six months ended 30 June 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, which requires lesser production process that allowed the Group to utilise its production capacity more efficiently. The sales volume of Processed Finger Joint Wood Panels decreased by about 1,090 m^3 or 45.6% from about 2,392 m^3 for the six months ended 30 June 2015 to about 1,302 m^3 for the six months ended 30 June 2016.

Cost of Sales

Cost of sales of the Group increased by about RMB33.6 million or 18.2%, from about RMB185.1 million for the six months ended 30 June 2015 to about RMB218.7 million for the six months ended 30 June 2016. 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 37.4% or RMB20.6 million from about RMB55.1 million for the six months ended 30 June 2015 to about RMB75.7 million for the six months ended 30 June 2016. The increase in gross profit of the Group was mainly attributable to the increase in average selling prices and the increase in sales volume of the Group's products.

GROSS PROFIT MARGIN BY SEGMENT

The overall gross profit margin of the Group increased from about 22.9% for the six months ended 30 June 2015 to about 25.7% for the six months ended 30 June 2016. Such increase was mainly attributable to the slightly increase in the average selling price of the Group's Processed Wood Products from about RMB3,447/m^3 for the six months ended 30 June 2015 to about RMB3,471/m^3 for the six months ended 30 June 2016. The slightly increase in the average selling price of the Group's Processed Wood Products was mainly because of sales discount offered to the Group's customers in early 2015 but the Group did not offer sales discount during the six months ended 30 June 2016. In addition, the unit cost of the Group's Processed Wood Products decreased from about RMB2,657/m^3 for the six months ended 30 June 2015 to about RMB2,579/m^3 for the six months ended 30 June 2016. The decrease in unit cost was mainly attributable to the increase in sales volume of less-shaved Processed Wood Panels and the unit cost of less-shaved Processed Wood Panels was lower than that of traditional Processed Wood Panels. As a result of the factors mentioned above, the Group recorded an increase in its gross profit margin for the six months ended 30 June 2016 as compared to the corresponding period in previous year.

Processed Wood Panels

Gross profit margin of Processed Wood Panels increased from about 23.1% for the six months ended 30 June 2015 to about 25.8% for the six months ended 30 June 2016. Such increase was mainly attributable to the increase in average selling price from about RMB3,418/m^3 for the six months ended 30 June 2015 to about RMB3,457/m^3 for the six months ended 30 June 2016 because of sales discount offered to the Group's customers in early 2015 but the Group did not offer sales discount during the six months ended 30 June 2016. In addition, the unit cost of the Group's Processed Wood Panels decreased from about RMB2,629/m^3 for the six months ended 30 June 2015 to about RMB2,566/m^3 for the six months ended 30 June 2016 which was mainly brought by the increase in sales volume of less-shaved Processed Wood Panels and the unit cost of less-shaved Processed Wood Panels was lower than that of traditional Processed Wood Panels.

Processed Finger Joint Wood Panels

Gross profit margin of Processed Finger Joint Wood Panels increased from about 19.2% for the six months ended 30 June 2015 to about 21.3% for the six months ended 30 June 2016. The increase in average selling price from about RMB4,259/m^3 for the six months ended 30 June 2015 to about RMB4,359/m^3 for the six months ended 30 June 2016 because of sales discount offered to the Group's customers in early 2015 but the Group did not offer sales discount during the six months ended 30 June 2016. In addition, the unit cost of the Group's Processed Finger Joint Wood Panels remained at similar level for the six months ended 30 June 2015 and for the six months ended 30 June 2016.

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 cutoffs produced in the manufacturing processes of Processed Wood Panels, which are in irregular shapes and sizes. Processing these cutoffs requires more production processes, and more production materials and labour are consumed in the production process. Therefore, the average cost of sales per cubic meter of the Processed Finger Joint Wood Panels sold was higher than that of the traditional Processed Wood Panels but the average selling price of the Processed Finger Joint Wood Panels is in general lower than that of the traditional Processed Wood Panels which resulted in a lower gross profit margin.

Other Income

Other income mainly comprises rental income, income from government grants and interest income. The Group's other income increased by about RMB0.9 million from about RMB2.8 million for the six months ended 30 June 2015 to about RMB3.7 million for the six months ended 30 June 2016. The increase was mainly due to increase in time deposits interest income by about RMB0.4 million for the six months ended 30 June 2016 as compared to the corresponding period in 2015. Besides, the Group received one-off government grants of about RMB0.5 million during the six months ended 30 June 2016. The increase in other income was partially offset by the decrease in rental income of about RMB0.4 million for the six months ended 30 June 2016 since there was only one tenant entered into the lease agreement with the Group in the first half of 2016 but the Group leased its investment properties to two tenants in the corresponding period in 2015.

Selling Expenses

The Group's selling expenses decreased by about 51.6% or RMB1.6 million from about RMB3.1 million for the six months ended 30 June 2015 to about RMB1.5 million for the six months ended 30 June 2016. Such decrease was principally due to the decrease in rental expenses of the sales offices by about RMB0.8 million as the Group intends to move all of 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 11.9% or RMB2.9 million from about RMB24.3 million for the six months ended 30 June 2015 to about RMB27.2 million for the six months ended 30 June 2016. The increase was mainly due to the increase in staff costs and professional fees. The staff costs increased by about RMB0.6 million from about RMB4.1 million for the six months ended 30 June 2015 to about RMB4.7 million for the six months ended 30 June 2016. Such increase was mainly brought by the increase in number of administrative staff employed for the Huai'an Factory. The professional fees increased by about RMB2.2 million from about RMB2.1 million for the six months ended 30 June 2015 to about RMB4.3 million for the six months ended 30 June 2016. The increase in professional fees was mainly in relation to the preparation for the transfer of listing from the Growth Enterprise Market to the Main Board of the Stock Exchange of Hong Kong Limited.

Finance Costs

The Group's finance costs increased by about 181.3% or RMB2.9 million from about RMB1.6 million for the six months ended 30 June 2015 to about RMB4.5 million for the six months ended 30 June 2016. The increase was mainly attributable to the increase in interest expenses of about RMB1.5 million on finance lease entered into with a financial leasing 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 RMB0.6 million for the six months ended 30 June 2015 but there was an exchange loss of about RMB23,000 for the six months ended 30 June 2016.

Income Tax Expenses

The Group's income tax expenses substantially increased from about RMB4.4 million for the six months ended 30 June 2015 to about RMB9.4 million for the six months ended 30 June 2016. The increase was primarily attributable to the increase in profit before taxation from about RMB28.8 million for the six months ended 30 June 2015 to about RMB46.1 million for the six months ended 30 June 2016. Besides, the subsidiary located in Huai'an, Jiangsu Province is subject to PRC Corporate Income Tax rate of 25% while the subsidiary located in Handan, Hebei Province continues to enjoy the preferential PRC Corporate Income Tax rate of 15%. Therefore, profit derived from the subsidiary located in Huai'an has to pay a higher income tax rate which resulted in the increase in income tax expenses.

Profit for the Period

As a combined result of the factors discussed above, the Group's profit for the period increased from about RMB24.5 million for the six months ended 30 June 2015 to about RMB36.7 million for the six months ended 30 June 2016. In addition, the Group's net profit margin increased from about 10.2% for the six months ended 30 June 2015 to about 12.5% for the six months ended 30 June 2016. Such increase was mainly due to the increase in the Group's gross profit margin and which was partially offset by the increase in the administrative expenses, finance costs and income tax expenses for the six months ended 30 June 2016.

LIQUIDITY, FINANCIAL RESOURCES AND TREASURY POLICY

	As at 30 June 2016	As at 31 December 2015
Current ratio	**3.62**	2.88
Gearing ratio*	**0.23**	0.25

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

The current ratio of the Group as at 30 June 2016 was 3.62 times as compared to that of 2.88 times at 31 December 2015. The increase in current ratio was mainly due to the increase in inventories and prepayments, deposits and other receivables due to the Group's business expansion. The Group's gearing ratio as at 30 June 2016 was about 0.23 as compared to that of 0.25 at 31 December 2015. Such decrease was primarily due to the increase in our accumulated profit for the six months ended 30 June 2016.

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

The Group mainly finances its capital expenditure and operational requirements through internally generated cash flows, net proceeds from the placing (the "Placing") of the Company's shares upon listing of the Company's shares on the GEM on 6 January 2014, cash reserve and short-term bank, 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 18 and note 19, respectively.

CAPITAL COMMITMENTS

The Group's capital commitments amounted to RMB33.0 million as at 30 June 2016 (31 December 2015: RMB58.1 million).

PLEDGE OF ASSETS

At 30 June 2016, time deposit of RMB20.0 million (31 December 2015: RMB20.0 million) has been pledged for a bank loan of a third party customer of the Group amounting to RMB18.0 million. This bank loan will expire on 24 August 2016.

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

At 30 June 2016, the Group's property, plant and equipment, investment properties and land use right with a carrying amount of about RMB64.2 million (31 December 2015: RMB45.9 million) were pledged to banks for bank borrowings.

At 30 June 2016, the Group's property, plant and equipment with a carrying amount of about RMB30.9 million (31 December 2015: RMB33.2 million) has been pledged to a financial leasing institution for the long-term other loan.

In November 2015, the Group entered into a finance lease arrangement with a financial leasing institution. The lease term is from November 2015 to November 2018. In April 2016, the Group signed a supplementary agreement with this institution and adjusted the amount of assets held under finance lease. At 30 June 2016, the net book value of machinery and equipment held under finance lease is RMB18.1 million (31 December 2015: RMB26.6 million).

At 30 June 2016, time deposits of RMB35.5 million (31 December 2015: RMBNil) has been pledged for bills payable to third party suppliers of the Group. The pledged time deposits are expected to be released within 6 months.

CONTINGENT LIABILITY

As at 30 June 2016, the Group provided guarantees for the facilities given by a bank to a customer and a supplier of the Group, both are independent third parties of the Company, for a total amount of RMB20.0 million (2015: RMB42.3 million). The banking facilities utilised by the relevant customer and supplier amounted to RMB18.0 million (2015: RMB38.0 million).

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. The facility has been repaid and the guarantee to this supplier has been released in March 2016.

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 acquisition or disposal of subsidiaries and affiliated companies during the six months ended 30 June 2016.

CAPITAL STRUCTURE

There has been no change in the capital structure of the Group during the six months ended 30 June 2016. The capital of the Group only comprises ordinary shares.

SIGNIFICANT INVESTMENTS

At 30 June 2016, there was no significant investment held by the Group (31 December 2015: Nil).

FOREIGN CURRENCY EXPOSURE

During the six months ended 30 June 2016, the Group's monetary assets and transactions were mainly denominated in RMB and Hong Kong Dollars ("HK$"). The management of the Group noted the recent fluctuation in the exchange rate between RMB and HK$, and is of the opinion that it does not currently have a material adverse impact on the Group's financial position. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

EMPLOYEES AND EMOLUMENT POLICY

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

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

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

As at 30 June 2016, the Group employed 376 employees, the total staff costs for the six months ended 30 June 2016 amounted to RMB13.3 million (2015: RMB10.3 million).

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

USE OF PROCEEDS

The net proceeds from the placing of the Company's shares on the GEM on 6 January 2014 (the "Placing") were about HK$229.6 million. The use of the net proceeds from the GEM Listing Date to 30 June 2016 had been applied as follows:

		Planned use of net proceeds from Placing as shown in the Prospectus from the GEM Listing Date to 31 December 2015 (Note 1) HK$ million (Approximate)	Actual use of net proceeds from Placing from the GEM Listing Date to 31 December 2015 HK$ million (Approximate)	Utilized net proceeds from Placing for the six months ended 30 June 2016 HK$ million (Approximate)	Unutilized net proceeds from Placing as at 30 June 2016 HK$ million (Approximate)
1.	Strengthen the Group's research and development capacities	23.0	23.0	–	–
2.	Continue to expand the Group's sales network	20.8	13.2	1.8	5.8
3.	Expansion of the Group's production capacity	84.4	82.9	1.5	–
4.	Repayment of loans	68.2	68.2	–	–
5.	General working capital and other general corporate purposes	33.2	33.2	–	–
Total:		229.6	220.5	3.3	5.8

Note:

1. Calculated based on the net proceeds received from the Placing of about HK$229.6 million.

As at 30 June 2016, the Group had an unutilised balance of net proceeds of approximately HK$5.8 million. The Group expects to apply such net proceeds on (i) the operational expenses to be incurred by the Group's sales offices in Beijing, Shanghai and Chengdu, (ii) participation in industry exhibitions and trade fairs and (iii) the set up of a sales office in Liaoning province, the PRC.

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

As at 30 June 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.

Save as disclosed above, as at 30 June 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 30 June 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)	Beneficial Owner	673,250,000	67.3%
Mr. Li Yue	Beneficial Owner	79,250,000	7.9%

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

Save as disclosed above, as at 30 June 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.

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

As at 30 June 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 close associates, has or may, any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities), which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules (except for the compliance adviser agreement entered into between the Company and Guotai Junan) as at 30 June 2016.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 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 six months ended 30 June 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 six months ended 30 June 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 six months ended 30 June 2016.

DIVIDENDS

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

AUDIT COMMITTEE

The Company has established its audit committee on 20 December 2013 with terms of reference in compliance with the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control and risk management systems of the Group. The audit committee has three members comprising the Company's three independent non-executive Directors, namely Mr. Lau Ying Kit, Mr. Pu Junwen and Mr. Zhang Dali. The chairman of the audit committee is Mr. Lau Ying Kit. The audit committee has reviewed the unaudited consolidated financial statements of the Group for the six months ended 30 June 2016.

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

Hong Kong, 11 August 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 the report shall prevail over the Chinese text.