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



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 on Main Board: 1885)

(Stock Code on GEM: 8099)

Financial adviser to the Company



Guotai Junan Capital Limited

TRANSFER OF LISTING FROM THE GROWTH ENTERPRISE MARKET TO THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

On 30 March 2016, the Company made an application to the Stock Exchange for the transfer of listing from GEM to the Main Board. The Company has applied for the listing of, and permission to deal in (i) 1,000,000,000 Shares in issue; and (ii) up to 100,000,000 Shares which may fall to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme on the Main Board by way of transfer of the listing from GEM to the Main Board.

The Board announces that the approval-in-principle for the Transfer of Listing was granted by the Stock Exchange on Friday, 2 September 2016. The last day of dealings in the Shares on GEM will be Friday, 9 September 2016. Dealings in the Shares on the Main Board will commence at 9:00 a.m. on Monday, 12 September 2016 and the Shares will be delisted from GEM according to Rule 9A.09(6) of the Listing Rules. The Board confirms that all pre-conditions for a transfer of listing under Rule 9A.02 of the Listing Rules have been fulfilled in relation to the Company and the Shares as at the date of this announcement.

INTRODUCTION

Reference is made to the announcement made by the Company on 30 March 2016 in relation to the Transfer of Listing. On 30 March 2016, the Company made an application to the Stock Exchange for the transfer of listing from GEM to the Main Board. The Company has applied for the listing of, and permission to deal in (i) 1,000,000,000 Shares in issue; and (ii) up to 100,000,000 Shares which may fall to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme on the Main Board by way of transfer of the listing from GEM to the Main Board.

The Board announces that the approval-in-principle for the Transfer of Listing was granted by the Stock Exchange on Friday, 2 September 2016.

REASONS FOR THE TRANSFER OF LISTING

The Company is an investment holding company and the Group engages in the processing, manufacturing and sale of Processed Wood Panels and Processed Finger Joint Wood Panels (collectively, “**Processed Wood Products**”) in the PRC. Further details and definition of each of the Processed Wood Products are set out in the paragraph headed “Business of the Group”.

The Shares has been listed on GEM since 6 January 2014. The Group only commenced commercial production and sales of Processed Wood Panels in September 2010, and all the revenue of the Group for the year ended 31 December 2010 were attributable to its sales during the period from September to December 2010. As such, at the time when the Group made its application for the listing of its Shares on the Stock Exchange in July 2013, the track record of the Group prior to September 2010 could not be regarded as part of the Group’s trading record, the financial results of the Group for the financial year ended 31 December 2010 could not be counted toward satisfaction of the requirements under Rule 8.05(1) of the Listing Rules. Hence, the Company was unable to meet Rule 8.05(1)(a) of the Listing Rules of a trading record of not less than three financial years at the time of its listing application in July 2013, and therefore, it elected to seek for the listing of the Shares on GEM instead.

The Directors believe that the listing of the Shares on the Main Board will enhance the profile and public recognition of the Group as well as increase the trading liquidity of the Shares. The Directors consider that the listing of the Shares on the Main Board will be beneficial to the future growth, financial flexibility and business development of the Group because the Main Board will provide a bigger fund raising venue for the Company and the listing of the Company on the Main Board generally gives banks and investors more confidence in the Group, which are essential for the Group’s business development in a long run. The Directors contemplate no change in nature of business of the Group following the Transfer of Listing. The Transfer of Listing will not involve the issue of new Shares by the Company.

DEALINGS IN THE SHARES ON THE MAIN BOARD

The Shares have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the GEM Listing Date. Subject to the continued compliance with the stock admission requirements of HKSCC, the Shares will continue to be

accepted as eligible securities by HKSCC for deposit, clearance and settlement in the CCASS once dealings in the Shares on the Main Board commence, and that all activities under CCASS are subject to the General Rules of the CCASS and CCASS Operational Procedures in effect from time to time.

The last day of dealings in the Shares on GEM (Stock code: 8099) will be Friday, 9 September 2016. Dealings in the Shares on the Main Board (Stock code: 1885) will commence at 9:00 a.m. on Monday, 12 September 2016 and the Shares will be delisted from GEM according to Rule 9A.09(6) of the Listing Rules.

The Transfer of Listing will have no effect on the existing share certificates in respect of the Shares which will continue to be good evidence of legal title and be valid for delivery, trading, settlement and registration purposes, and will not involve any transfer or exchange of the existing share certificates. Currently, the Shares are traded in board lot size of 4,000 Shares each and are traded in HK\$. The principal share registrar and transfer office of the Company is Appleby Trust (Cayman) Ltd. and the branch share registrar and transfer office of the Company in Hong Kong is Union Registrars Limited. No change will be made to the Chinese and English stock short names of the Company, the existing share certificates, board lot size, trading currency and share registrars of the Shares in connection with the Transfer of Listing.

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on 20 December 2013 for the purpose of providing incentives to eligible participants to contribute to the Group and to enable the Group to recruit and retain high-calibre employees and attract and retain human resources that are valuable to the Group. The Share Option Scheme will expire on 5 January 2024. As at the date of this announcement, the Share Option Scheme fully complies with the requirements of Chapter 17 of the Listing Rules. Thus, the Share Option Scheme will remain effective upon the Transfer of Listing.

Pursuant to the Share Option Scheme and as at the date of this announcement, the Company may grant options in respect of a total of 100,000,000 Shares, representing 10% of the share capital of the Company in issue as at the GEM Listing Date, during the remaining term of the Share Option Scheme. The listing of the Shares issued and to be issued pursuant to the Share Option Scheme will also be transferred to the Main Board pursuant to Rule 9A.10 of the Listing Rules.

As at the date of this announcement, the Company has not issued, any options under the Share Option Scheme, warrants or similar rights or convertible equity securities of which will be transferred to the Main Board.

PUBLIC FLOAT

The Directors confirm that about 25.0% of the total issued share capital of the Company is held by the public (as defined under the Listing Rules) as at the Latest Practicable Date. Accordingly, the minimum 25% public float requirement has been maintained in compliance with Rule 8.08 of the Listing Rules.

COMPETING INTERESTS

As at the date of this announcement, none of the Directors or controlling Shareholders or their respective associates has any interest in any business which competes or may compete, either directly or indirectly, with the business of the Group.

GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

Pursuant to Rule 9A.12 of the Listing Rules, the general mandates granted to the Directors to allot and issue new Shares and repurchase Shares by the Shareholders on 11 May 2016 will continue to be valid and remain in effect until the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws to be held; or
- (c) the revocation or variation of such authority by an ordinary resolution of Shareholders in general meeting.

BIOGRAPHICAL INFORMATION OF DIRECTORS

The below sets forth the biographical information of each of the Directors:

Executive Directors

Ms. Yim Tsun (閻峻), aged 44, is an executive Director of the Company and the chairlady of the Board. She is one of the founders of the Group and one of the controlling Shareholders. Ms. Yim was appointed as the executive Director on 6 June 2012. She is mainly responsible for the strategic planning, corporate culture, overall operation and management of the Group. She obtained a professional diploma in public relations and communications management from the School of Continuing and Professional Studies of The Chinese University of Hong Kong (香港中文大學專業進修學院) in January 2008. Prior to establishing the Group, Ms. Yim worked as a manager in the China marketing department of the China Overseas Communications Limited* (中國海外傳播公司) from May 2001 to September 2003; and as a director of exhibition department in Hong Kong Wen Wei Po Daily International Public Relations Consultant Co. Limited (香港文匯報國際公關顧問有限公司) from September 2004 to November 2011. She is also a director of certain subsidiaries of the Company.

As at the Latest Practicable Date, Ms. Yim was interested in 673,250,000 Shares. These Shares were held by Brilliant Plan Holdings Limited, the entire issued shares of which is owned by Ms. Yim. By virtue of the SFO, Ms. Yim is taken to be interested in the Shares in which Brilliant Plan Holdings Limited is interested.

Mr. Li Li (李理), aged 37, is an executive Director of the Company and one of the founders of the Group. He was appointed as the executive Director on 23 July 2012 and the chief executive officer of the Company on 20 December 2013. Mr. Li is mainly responsible for the strategic planning and operation of the Group. He obtained a diploma in computer applications from Zhengzhou University (鄭州大學) in July 1998. Mr. Li has accumulated

over seven years of experience in sales, business management and over two years of experience in the chemical industry. Prior to establishing the Group, Mr. Li worked as a business manager in Shenzhen Qinzhong Electronics Co., Ltd.* (深圳秦眾電子股份有限公司) from May 1998 to November 2003, whereby he was responsible for sales to sizeable customers. Mr. Li also worked in the business department in ASUSTek Computer (Shanghai) Company Limited (Guangzhou Branch) (華碩電腦(上海)有限公司廣州分公司) from April 2004 to August 2006. From September 2006 to June 2009, he worked as a technical supervisor in Beijing Quan Hui Chemical Co. Ltd.* (北京全輝化工有限責任公司). Mr. Li is also a director of Jiangsu AMS.

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from the GEM Listing Date which either party may terminate by giving not less than three months' prior notice in writing and is subject to termination provisions therein and retirement and re-election at the annual general meetings of the Company in accordance with the Articles or any other applicable laws from time to time whereby he/she shall vacate his/her office. Pursuant to the service contract of each of the executive Directors, each of them shall be entitled to the annual basic salary of HK\$840,000. The Board determined the executive Directors' emoluments with reference to his/her duties and responsibilities.

Independent Non-Executive Directors

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

Mr. Pu Junwen (蒲俊文), aged 51, is an independent non-executive Director of the Company. He was appointed as the independent non-executive Director on 20 December 2013. Mr. Pu obtained a bachelor in pulp and paper engineering from the Shaanxi University of Science and Technology (陝西科技大學, formerly known as 西北輕工業學院) in July 1986. Prior to joining the Group, Mr. Pu was involved in academic and research work for the College of Materials Science and Technology of Beijing Forestry University (北京林業大學材料科學與技術學院) where he was a professor from January 2008 to December 2011 teaching classes on chemical processing technique for forestry production. He has expertise in research work relating to pulp technologies and usage of cellulose and its derivatives. He has also held positions in paper making or forestry-related committees.

Mr. Lau Ying Kit (劉英傑), aged 42, is an independent non-executive Director of the Company. He was appointed as the independent non-executive Director on 20 December 2013. Mr. Lau is currently the chief financial officer and company secretary of Great Harvest Maeta Group Holdings Limited (Stock Code: 3683), a company listed on the Main Board of the Stock Exchange. Mr. Lau is also an independent non-executive director of Xiezhong International Holdings Limited (Stock Code: 3663) and Kingdom Holdings Limited (Stock Code: 528), both listed on the Main Board of the Stock Exchange. He is also a director of Adex Mining Inc. (Stock Code: ade), a company listed on the TSX Venture Exchange in Canada. Mr. Lau is a fellow member of the Hong Kong Institute of Certified Public Accountants and he obtained a master's degree in finance from the City University of Hong Kong in November 2008. He has extensive experience in finance and accounting in the PRC and Hong Kong.

Mr. Lau was the director of Allied Creation Corporation Limited(銳創聯盟有限公司)(formerly known as Allied Creation Corporation Limited (建盟興業有限公司)) (“Allied Creation”), a private company incorporated in Hong Kong. Allied Creation was dissolved on 4 March 2011 by deregistration based on its own application pursuant to section 291AA of the Companies Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014. Prior to being dissolved by deregistration, Allied Creation had never commenced business or operation or ceased to carry on business or ceased operation for more than three months immediately before application for deregistration.

Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term of three years commencing from the GEM Listing Date which either party may terminate by giving not less than three months' prior notice in writing and is subject to termination provisions therein and retirement and re-election at the annual general meetings of the Company in accordance with the Articles or any other applicable laws from time to time whereby he shall vacate his office. Pursuant to the appointment letter of each of the independent non-executive Directors, each of them shall be entitled to a director's fee of HK\$150,000 per annum. The Board determined the independent non-executive Directors' emoluments with reference to his duties and responsibilities.

General

Save as disclosed in this announcement, none of the Directors (i) held other positions in the Group as of the Latest Practicable Date; (ii) had any other relationship with any Directors, senior management or substantial shareholders or controlling Shareholders of the Company as of the Latest Practicable Date; and (iii) held any other directorships in other listed public companies in the last three years prior to the Latest Practicable Date. As at the Latest Practicable Date, save for the interests of Ms. Yim in the shares or underlying shares of the Company which are disclosed in this announcement, each of the Directors did not have any interest in the shares or underlying shares of the Company and the associated corporations of the Company within the meaning of Part XV of the SFO.

Save as disclosed in this announcement, there are no other matters concerning any of the Directors that need to be brought to the attention of the Shareholders and there is no information to be disclosed pursuant to any of the requirements of Rule 13.51(2) of the Listing Rules.

REGULAR PUBLICATION OF RESULTS

Upon the Transfer of Listing, the Company will cease the practice of quarterly reporting of its financial results and will follow the relevant requirements of the Listing Rules which include publishing its interim results and annual results within two months and three months from the end of the relevant periods or financial year ends, respectively. The Board is of the view that investors and Shareholders will continue to have access to relevant information of the Company following the reporting requirements under the Listing Rules.

WAIVER FROM STRICT COMPLIANCE WITH THE MANAGEMENT PRESENCE REQUIREMENT IN RULE 8.12 OF THE LISTING RULES

An application has been submitted to the Stock Exchange for a waiver from strict compliance with Rule 8.12 of the Listing Rules which requires a new applicant applying for primary listing on the Main Board to have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong.

Since the head office and the business operation of the Group are located in the PRC, the senior management team of the Group is and will continue to be based in the PRC. At present, only one of the executive Directors is ordinarily resident in Hong Kong and the other executive Director is not ordinarily resident in Hong Kong. Further, the Directors consider that it would be practically difficult and not commercially feasible for the Company to appoint another Hong Kong resident as an executive Director or to relocate the other existing executive Director in the PRC to Hong Kong merely for the purpose of complying with Rule 8.12 of the Listing Rules. The Directors do not contemplate in the foreseeable future that the Company will have any additional management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

In this regard, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to the Company from strict compliance with the requirement under Rule 8.12 of the Listing Rules subject to the following conditions to ensure that regular and effective communication is maintained between the Company and the Stock Exchange:

- (a) the Company will continue to maintain two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as the Company's principal channel of communication with the Stock Exchange and ensure that the Company comply with the Listing Rules at all times. The two authorised representatives appointed are Ms. Yim Tsun, chairlady of the Board and an executive Director, and Ms. Ho Wing Yan, the company secretary of the Company. Each of Ms. Yim and Ms. Ho is ordinarily resident in Hong Kong. Each of the authorised representatives of the Company has confirmed that each of them will be available to meet with the Stock Exchange in Hong Kong within a reasonable time upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and e-mail. Each of the authorised representatives has been authorised to communicate on behalf of the Company with the Stock Exchange;

- (b) each of the authorized representatives has means to contact all members of the Board promptly at all times as and when the Stock Exchange wishes to contact the Directors for any matters. In order to further enhance the communication between the Stock Exchange, the authorized representatives and the Directors, the Company will implement the policies that:
 - (i) each Director will provide his/her office phone number, mobile phone number, fax number and e-mail address to the authorized representatives and his/her respective alternate; and
 - (ii) in the event that a Director expects to travel and be out of office, he/she will provide the phone number of the place of his/her accommodation to the authorized representatives and his/her respective alternate;
- (c) all Directors who are not ordinarily resident in Hong Kong have also confirmed that they possess valid travel documents to visit Hong Kong and will be able to meet the relevant members of the Stock Exchange upon reasonable notice;
- (d) in addition, each of the Directors has provided his/her mobile phone number, office phone number, fax number and e-mail address to the Stock Exchange to ensure that they will be readily contactable when necessary to deal promptly with enquiries from the Stock Exchange;
- (e) the Company will appoint Guotai Junan Capital Limited as its compliance adviser pursuant to Rule 3A.19 of the Listing Rules. The compliance adviser will act as the alternate channel of communication with the Stock Exchange when the authorised representatives are not available. The compliance adviser will have access at all times to the authorised representatives (including the alternative authorised representative), the Directors and senior management of the Company to ensure that it is in a position to provide prompt responses to any queries or request from the Stock Exchange in respect of the Company; and
- (f) the Company will also continue to retain other professional advisers (including legal advisers) after the Transfer of Listing to assist the Company in dealing with any questions which may be raised by the Stock Exchange and to ensure that there will be efficient communication with the Stock Exchange.

COMPLIANCE WITH THE LISTING RULES

The Board confirms that all pre-conditions for a transfer of listing under Rule 9A.02 of the Listing Rules have been fulfilled in relation to the Company and the Shares as at the date of this announcement.

BUSINESS OF THE GROUP

The Group engages in processing, manufacturing and sale of Processed Wood Products in the PRC. 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. Poplars have a relatively short growth cycle of about 7 to 10 years and therefore the supply of poplars in the PRC is relatively abundant and stable. The Wood Processing Procedure improves the hardness, shrinkage and swelling rate, density, deformation resistance, cracking resistance, anti-corrosiveness, bending strength and elasticity of poplar wood. Also, the Wood Processing Procedure strengthens the moisture resistance and flame resistance of wood panels. Natural wood grain and figure are also preserved in the end-products. By applying the 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. Further details on how Processed Wood Panels could be regarded as substitute of natural solid wood are set out in the paragraph headed “Industry Overview — Processed Wood Panels as substitute of natural solid wood”. The Group’s strategy is 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 Wood Processing Procedure and then shaved, sanded and trimmed into strips of wood panels according to the dimension and other specifications specified by the 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 involve lesser production processes and lower wastage of production materials. This allows 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 Company and the Shareholders for the Group to shift its focus to less-shaved Processed Wood Panels based on the following reasons:

- *enhanced production efficiency*: less-shaved Processed Wood Panels involves lesser production processes, as fewer cutting, shaving, trimming and sanding on each wood panel will be required as compared with that for the manufacture of traditional Processed Wood Panels. This shortens the production lead time of each Processed Wood Panel, reduces the wood wastes and cutoff arising from the production process, and enhances the Group’s production efficiency. For illustration purpose, after undergoing the Wood Processing Procedure and the drying process which are the same for both less-shaved Processed Wood Panels and traditional Processed Wood Panels, and assuming all production capacity was used to produce only one type of Processed Wood Panels (i.e. either less-shaved or traditional Processed Wood Panels) for the year ended 31 December 2015, the Group’s workshop at the Handan Production Plant was capable of processing and manufacturing about 190,000 m³ of less-shaved Processed Wood Panels, as compared with about 155,500 m³ of traditional Processed Wood Panels. The increased production output volume contributed to the growth in the Group’s revenue, and enable the Group to further expand its customer base and application spectrum of its Processed Wood Panels.

- *reducing the average unit cost of sales:* as less-shaved Processed Wood Panels involves lesser production processes, the labour required for production, and thus the average unit cost of sales for less-shaved Processed Wood Panels, is reduced. During the year ended 31 December 2015, the average unit cost of sales of less-shaved Processed Wood Panels is about RMB2,546 per m³, this is about 18.6% less than that for traditional Processed Wood Panels of about RMB3,128 per m³.
- *reducing inventory turnover days and increasing sales volume:* as less-shaved Processed Wood Panels involves lesser production time, this leads to the improvement in the Group's inventory turnover days. This is because lesser production time leads to reduction in work in progress and allowing for more finished goods available for sale. The Group's inventory turnover days decreased from 82 days for the year ended 31 December 2013 to 81 days for the year ended 31 December 2014, and further decreased to 66 days for the year ended 31 December 2015. Such was mainly due to the decrease in inventory in work in progress stage as lesser production time was required and led to more finished goods produced within a shorter period of time. As a result, substantial increase in sales volume of the less-shaved Processed Wood Panels was achieved. As shown in the table below, sales volume of less-shaved Processed Wood Panels increased substantially during the years ended 31 December 2013, 2014 and 2015:

	Year ended 31 December		
	2013	2014	2015
Sales volume of less-shaved Processed Wood Panels (m ³)	57,729	111,680	163,354
Percentage of increase		93.5%	46.3%

- *improved price advantage over competing products:* the offering of the less-shaved Processed Wood Panels with a relatively lower average selling price enables the Group to expedite the market acceptance of its products. Further details on the Group's market-oriented pricing policy are set out in the paragraph headed "Key financial information — Pricing policy and average selling price".

Given the above, despite the lower average selling price and gross profit margin of less-shaved Processed Wood Panels, the Group has recorded a significant increase in its sales attributable to Processed Wood Panels during the years ended 31 December 2013, 2014 and 2015 at the compound annual growth rate of about 22.8%, while the gross profit attributable to sales of Processed Wood Panels dropped slightly in 2014 but experienced a substantial increase of about 17.8% in 2015 and about 40.3% for the six months ended 30 June 2016 as compared to the corresponding period in 2015. This shows that the less-shaved Processed Wood Panels attracted higher market acceptance, which is important for the Group's long term business development given that the Group's products are relatively new to market and are substitute products of natural solid woods.

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

The Group's products are sold to customers in the PRC, including mainly manufacturers of floor planks and planks on stairs, manufacturers of doors and furniture, property developer and wholesalers of wooden panels in the PRC. The Group has sales offices located in Beijing, Shanghai and Chengdu as at the date of this announcement. These sales offices allow the Group to provide better after sales services to its existing customers and to follow-up with the needs of new customers.

Production Facilities

As at the date of this announcement, the Group has two production plants for the manufacturing of Processed Wood Products. They are situated at (i) Wei County, Handan, Hebei Province, the PRC (“**Handan Production Plant**”) with a total site area of about 132,000 m² in which commercial production has commenced since September 2010 and with new additional production facilities commercial production commenced since February 2012; and (ii) Huai'an Industrial Zone, Huai'an, Jiangsu Province, the PRC (“**Huai'an Production Plant**”) with a total site area of about 125,000 m² in which commercial production has commenced in June 2016. As advised by the Company's PRC legal adviser, the Group has obtained all material approvals (including all land title certificates) for the establishment and operation of the Huai'an Production Plant.

Production capacity and utilization rate

The following table sets forth the annual production capacity and utilization rate of each of the Handan Production Plant and Huai'an Production Plant for the year indicated:

	Year ended 31 December 2013			Year ended 31 December 2014			Year ended 31 December 2015		
	Production capacity (m ³)	Actual production (m ³)	Utilization rate	Production capacity (m ³)	Actual production (m ³)	Utilization rate	Production capacity (m ³)	Actual production (m ³)	Utilization rate
Handan Production Plant	137,560	131,081	95.3%	176,317	139,585	79.2%	186,802	159,882	85.6%
Huai'an Production Plant	—	—	—	—	—	—	23,664	15,562	65.8%

(Note 3)

Notes:

1. Drying process is one of the most critical parts of the Group's production process. As such, the Group estimated the production capacity based on (a) the volume of the Group's wood drying kiln and drying cans; (b) the number of days required for drying; and (c) output ratio of the Wood Processing Procedure estimated based on the Group's production experience, and on the basis that the Group's drying kilns and drying cans are in operation for 24 hours a day and 346 days a year.
2. The 346 days used for the calculation above represent the weighted average number of days of the Group's drying kilns and drying cans in operation during the relevant year. The Group carries out annual inspection and checking on the Group's drying kilns for about 20 days every year. During the inspection, the Group's drying kilns are not in operation. No annual inspection and checking exercise is required for the Group's drying cans.
3. Actual production from preliminary trial production.

During the first half of 2013, 24 wood drying cans, representing about 42.9% of all the Group's wood drying cans in operation, had to undergo upgrade of its system and therefore the Group had to discontinue their usage. In July 2013, all of such drying cans had completed their upgrade and resumed operation thereafter. Given such, the Handan Production Plant was not in full operation which led to the decrease in production capacity for the year ended 31 December 2013. However, the Handan Production Plant resumed full operation for the full year ended 31 December 2014 which led to the increase in production capacity. As such, the utilization rate in 2013 was relatively higher than 2014 because of the decrease in production capacity in 2013.

In addition, the Group also improved the production efficiency of its wood drying kilns, the average number of days required for drying decreased from about 13.5 days for the year ended 31 December 2013 to about 11.4 days for the year ended 31 December 2014. Hence, the actual production in Handan Production Plant improved.

There was a slight rebound in the utilization rate of the Handan Production Plant for the year ended 31 December 2015 because the rate of increase in sales volume of Processed Wood Products was greater in 2015 (i.e. during the years ended 31 December 2013, 2014 and 2015, Processed Wood Products sales volume year-on-year growth rate was about 12.5% and 25.2%, respectively) which led to increase in actual production and resulted in the increase in utilization rate.

The Directors expected that with the commencement of commercial production of the Huai'an Production Plant, the Group's annual production capacity will double by increasing to about 300,000 m³ thereafter. Further details on the establishment of Huai'an Production Plant are set out in the paragraph headed "Recent Development — Establishment of Huai'an Production Plant".

MAJOR RISKS ASSOCIATED WITH THE BUSINESS OF THE GROUP

The Board considers that the material risks associated with the business of the Group include the following:

Processed Wood Products may not be generally accepted by, or remain competitive in, the highly competitive wood resources market in the PRC

While the Group positions the Processed Wood Products as economical substitutes of natural solid wood in respect of its application given their improved hardness, shrinkage and swelling rate, density, deformation resistance, cracking resistance, bending strength and elastic modulus, there is no assurance that the market will accept, or continue to accept, the Group's products as the production material of wood-based downstream products.

Besides, the PRC wood resources market is highly competitive and the pricing of and demand for the Processed Wood Products are significantly affected by the intensity of competition the Group faces. The Group continuously faces competitions from the manufacturers and suppliers of solid wood and other substitute products of solid wood, including artificial board such as medium density fiberboard and particleboard. These competitors may have substantially greater financial and technological resources, design and manufacturing capacities, stronger customer relationship, more extensive distribution networks and better brand image than the Group. The demand for the Group's products has

been driven by (i) the demand for natural solid wood products and limited supply, (ii) the price competitiveness of the products of the Group due to the relatively lower purchase costs of poplars and (iii) the Group's market oriented pricing policy. However, the Group may not be able to maintain such competitiveness as a result of, among other circumstances, an increase in the supply of comparable natural solid woods in the PRC market, a decrease in the selling price of comparable natural solid woods, and/or an introduction to the market of other comparable natural solid wood products or other existing or future emerging substitute products. Also, the Group's existing or future competitors may develop new wood processing technologies similar to that of the Wood Processing Procedure but with enhanced product features, production efficiency and/or costs control, which may in turn adversely affect the Group's competitiveness. Preferences of the Group's customers and potential customers, including manufacturers and users of downstream wood-based products, as to the distinctive features, perceived advantages and cost efficiency of the Group's products and other competing products may also affect the acceptance of the Group's products by the market.

The Group may not be able to maintain the profit margins of its products

The Group may not be able to maintain its relatively high gross profit margins, which amounted to about 29.3%, 26.3%, 25.3% and 25.7% during the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, respectively. The decrease in the gross profit margins of the Group's products is attributable to a number of factors, including the Group's shift in focus to the promotion of less-shaved Processed Wood Panels, which have a relatively lower average selling price and gross profit margin than traditional Processed Wood Panels, and sales discounts from time to time offered by the Group for the market promotion of the Group's products, which resulted in the decrease of the average unit selling price of the Processed Wood Products. Such average unit selling price decreased from about RMB3,863 per m³ in 2013 to about RMB3,474 per m³ in 2015, representing a decrease of about 10.1%. The Group's gross profit margin is also affected by the increase in wood and other production material costs. In particular, the Group's average unit purchase price per m³ of wood panels, being the Group's principal production material which contributed to about 84.4% of the Group's cost of sales for the year ended 31 December 2015, increased from about RMB1,740 in 2013 to about RMB1,893 in 2015, representing an increase of about 8.8%. As the Group determines the selling price of its Processed Wood Products on a market-oriented basis, it may not be able to pass on any increase in price in the production materials to its customers and/or increase its selling price. The Group's gross profit margin could be adversely affected if it fails to maintain the competitiveness of its products in the market in the future, or there is any significant increase in the purchase price of wood panels and other principal production materials of the Group's products.

The Group relies on the steady supply of poplar wood panels. Any increase in the purchase costs may adversely affect the Group's profitability

Poplar wood panels made largely of poplars are the Group's principal production materials used for production of the Processed Wood Products. As the Group does not have plantation forest, the Group needs to purchase poplar wood panels from the market. The Group's operation and financial performance may be adversely affected if, for whatever reasons, any of its major suppliers ceases to supply the Group with sufficient amount of poplar wood panels in a timely manner or that the Group is unable to obtain sufficient poplar wood

panels at commercially reasonable prices or unable to pass increased costs on to its customers. If the Group is unable to find alternative supplies of production materials, its production activities may also be adversely affected.

The Group's production techniques and technical know-how may become obsolete

The requirements and product specifications and statutory requirements as to product safety of the Group's customers are subject to changes and the Group may incur significant costs in adapting to such new requirements or specifications. The Group's competitors may develop production techniques, or supply other substitute products which are superior to the Group in terms of costs, time and product quality, which would render the Group's production techniques obsolete and the its business non-competitive. If any of these factors materializes, the Group's business, results of operations and profitability could be materially and adversely affected.

The Group's success depends on its ability to retain its senior management team and its ability to attract and retain other qualified personnel

The Group's performance and success are, to a significant extent, attributable to the contribution of the Group's senior management staff, including but not limited to Mr. Li Li, the executive Director and chief executive officer of the Company, who has been with the Group for above 5 years. The Group's future success will depend on the continued involvement, efforts, performance and abilities of its Directors and senior management team as a whole. The Group may not be able to maintain, develop and continually tap on the experience and skills of its key personnel, and the Group may lose its key personnel to competitors. If the Group fails to retain its key personnel or attract and engage a suitable replacement or recruit suitable new appointees on a timely basis, it may result in the loss of strategic leadership, disruption or delay to business operation or expansion, which may materially and adversely affect the Group's business strategies, business, operations and financial condition.

INDUSTRY OVERVIEW

Factors affecting the supply of natural solid wood resources in the PRC

In the 13th Five-Year Plan (2016–2020), the PRC government sets down the blueprints for green development and one of the target is to improve forest protection by banning commercial deforestation and to increase forest coverage area and forest stock. To realize the 13th Five-Year Plan, the State Forestry Administration (國家林業局) announced in December 2015 that commercial deforestation on national state-owned natural forests will be banned from 2016 onwards. The Group sourced its production materials, poplars, from suppliers located in the PRC. To the best of the Directors' knowledge, all of the poplars procured by the Group from these suppliers originate from artificial plantations in the PRC rather than national state-owned natural forests. Hence, it is expected that the banning of the commercial deforestation on national state-owned natural forests in the PRC will not affect the Group's business and financial operation.

Demand for wood resources in the PRC

According to State Forestry Administration, the apparent consumption of wood resources in the PRC in 2014 has reached to about 500 million m³ (this figures includes consumption in natural solid wood and artificial boards). The State Forestry Administration estimates that the demand for wood resources in the PRC will reach about 800 million m³ by 2020.

Demand and perception of Processed Wood Panels compared to traditional natural solid wood

The Directors believe that the Processed Wood Panels will experience increase in demand and will be welcome as an environmental friendly substitute to traditional natural solid wood based on the following:

1. due to the banning of commercial deforestation in the PRC from 2016 onwards, the supply of natural solid wood in the PRC is expected to face substantial shortage in the long run and will led to increase in price of natural solid wood and thereby increasing the price of consumer products made from such raw materials. Given such, the Directors expect that this will increase the demand for other wood resources (e.g. Processed Wood Panels and artificial boards) and leading to expansion of such market and consumption of these alternatives;
2. as set out in the paragraph headed “Processed Wood Panels as substitute of natural solid wood” of this section, as Processed Wood Panels possess the similar characteristics of major types of comparable natural solid wood and are less expensive than comparable natural solid wood, the Directors believe that it could be regarded as substitute of natural solid wood. Given the estimated demand for wood resources in the PRC will reach about 800 million m³ by 2020 and the banning of commercial deforestation in the PRC, the Directors believe that these will be favorable to the Group and expect that there will be a stable increase in demand for Processed Wood Panels in a long run; and
3. given the 13th Five-Year Plan on the promotion of green development, Processed Wood Products would be welcomed as substitute to natural solid wood because poplars grow fast and are abundantly found in northern PRC not only from natural sources, but also from plantation.

Competitive Landscape

The Directors believe that the Processed Wood Products market is a subset of the wood resources market. Given the enormousness of the wood resources market in the PRC, the Directors consider that the ranking and market share of the Group in the wood resources market in the PRC to be of little significance.

To the best of the Directors’ knowledge, although there are some other companies or factories applying similar wood processing procedure in their production process, the Group is not aware of any other direct competitor in the PRC whose business concentrates on the wood processing in Processed Wood Products market. Although the Group is not able to identify any direct competitor whose business concentrates on Wood Processing Procedure in Processed Wood Products market, as the Processed Wood Products can be used as

economical substitutes of natural solid wood, the Group believes that it principally competes with suppliers of natural solid wood, and also that of artificial boards, being another substitute products of the natural solid wood. Furthermore, the Directors believe that the Processed Wood Products have comparative advantages over natural solid woods in terms of price.

The Directors consider that Processed Wood Products have the following advantages over natural solid wood and artificial board:

- (1) *relatively abundant supply of poplars in the PRC*: Processed Wood Products are mainly made of poplars, which is a fast-growing tree species that withstands long, cold winters and short summers. Since poplars have a rather short growth cycle of 7 to 10 years, their supply is relatively abundant and stable and are commonly found in natural forest as well as artificial plantations in northern PRC.
- (2) *cheaper cost of wood resources*: Processed Wood Products are generally made of fast-growing poplars which are commonly used for forest plantation purpose and spread extensively in the PRC, the price of such resources are generally cheaper than that of natural solid wood.
- (3) *environmental-friendly and safe*: the present timber disposal modes, such as artificial board processing, could cause environmental pollution and destruction, which has become a bottleneck in the development of timber industry. The impregnation fluid used in the production of Processed Wood Products, on the other hand, is a green and environmental-friendly biological preparation made with biological synthetic resin technology. Hence, timbers treated with the impregnation fluid are environmental-friendly and safe.
- (4) *superior quality with value-added features*: as compared to artificial boards (e.g. particleboard and plywood), which are boards made of timbers and leftovers, cotton stalks, bagasse, reed and other plant fiber in line with national standard, Processed Wood Products are of higher commercial value because they are superior in terms of functions and features such as hardness, density, moisture resistance and deformation, while they retain the natural wood grain of solid wood.
- (5) *increasing demand for Processed Wood Products to substitute natural solid wood*: in the rise of awareness of natural forest protection, PRC government implemented campaigns to protect forestry resources. As a result of the forest conservation measures and restrictions on forest deforestation implemented by the PRC government, PRC's timber output grew moderately. To realize the 13th Five-Year Plan, the State Forestry Administration announced in December 2015 that commercial deforestation on national state-owned natural forests will be banned from 2016 onwards. Forest conservation measures have also been adopted by foreign log wood exporting countries such as Russia. From environmental protection perspective, the Processed Wood Products, which are principally made of fast-growing poplars, would be welcomed as substitute to natural solid wood because poplars grow fast and are abundantly found in northern PRC not only from natural sources, but also from plantation.

Processed Wood Panels as substitute of natural solid wood

Apart from the advantages as set out above, the Directors consider that the Group's major product, Processed Wood Panels (in particular less-shaved Processed Wood Panels), could be regarded as substitute of natural solid wood based on the following factors:

	Processed Wood Panels		Comparable natural solid wood
	<i>Traditional</i>	<i>Less-shaved</i>	
Source	By processing poplar wood panels with Wood Processing Procedure		From natural wood resources
Size	In strip form, with dimension depending on the Group's customers' requirements (but subject to the limitation as to the width and length of natural poplars)		Usually in strip form, depending on the width and length of the relevant natural wood resources
Appearance	Natural wood grain and figure of poplars		Natural wood grain and figure of the relevant natural wood resources
Strength durability and other technical specification	Improved hardness, shrinkage and swelling rate, density, deformation resistance, cracking resistance, bending strength and elasticity of poplar, with anti-corrosive, moisture resistant and flame resistant features, offering similar hardness and endurance as compared with comparable natural solid woods		For illustration purpose, the basic density, flexural strength and compression strength parallel to wood grain of raw poplar and certain natural solid woods that are comparable to the Group's products are as follows (<i>Note 1</i>):
	For illustration purpose, the basic density, flexural strength and compression strength parallel to wood grain of poplar wood processed by Wood Processing Procedure (<i>Note 1</i>):		
— Basic density (g/cm³) (<i>Note 2</i>)	0.473		Raw poplar: 0.350 Quercus mongolica (柞木): 0.603 Ash (水曲柳): 0.509 Elm (榆木): 0.431

	Processed Wood Panels		Comparable natural solid wood
	Traditional	Less-shaved	
— Flexural strength (megapascal) (Note 3)		75.99	Raw poplar: 53.45 Quercus mongolica: 116.2 Ash: 105.94 Elm: 78.40
— Compression strength parallel to wood grain (megapascal) (Note 4)		59.23	Raw poplar: 30.44 Quercus mongolica: 53.41 Ash: 48.80 Elm: 31.10
Application	furniture, floor planks, doors etc.		Quercus mongolica: furniture, doors etc. Ash: furniture, floor planks, doors, window frame etc. Elm: furniture, doors etc.
Pricing (per m ³)	RMB4,957 (Note 5)	RMB3,421 (Note 5)	Quercus mongolica: About RMB4,400 to RMB5,200 Ash: About RMB4,800 to RMB5,400 Elm: About RMB4,600 to RMB5,700 (Note 6)

Notes:

1. Data extracted from a study commissioned by the Group on the performance testing analysis and functions evaluation on poplar processed by Wood Processing Procedure (樹脂浸漬改性楊木性能測試分析與性能評價), which was conducted by a college of forestry in Hebei, by comparing the physical properties of the poplar processed by Wood Processing Procedure, raw poplar wood and several selected natural solid wood which are broad-leaved wood commonly used in the PRC. The Group selected three types of natural solid wood from such study that the Group believe the Processed Wood Panels are their substitutes in terms of features, price and applications for the purpose of the above comparison.
2. Test conducted based on the standard “Method for determination of wood density” (GB/T 1933–2009).
3. Test conducted based on the standard “Method for testing of flexural strength” (GB/T 1936.1–2009).
4. Test conducted based on the standard “Method for testing of compression strength parallel to grain of wood” (GB/T 1935–2009).
5. This is the approximate average price for the six months ended 30 June 2016.
6. Source of such price was based on the prevailing wholesale price of such natural solid wood, with similar specifications to the Processed Wood Panels, in June 2016.

The less-shaved Processed Wood Panels contain the same characteristics as the traditional Processed Wood Panels. The only difference between the less-shaved Processed Wood Panels and traditional Processed Wood Panels is that less-shaved Processed Wood Panels involve lesser production processes (e.g. fewer cutting, shaving, trimming and sanding).

The above comparison table shows that Processed Wood Panels possess the similar characteristics of major types of comparable natural solid wood, but which are made of more economical wood resources, poplars. Processed Wood Panels and comparable natural solid wood are both commonly applied for the manufacture of similar types of products (e.g. furniture, floor planks or doors). Lastly, Processed Wood Panels, in particular less-shaved Processed Wood Panels, are less expensive than the comparable natural solid wood. Given the above, the Directors believe that the Processed Wood Panels, in particular less-shaved Processed Wood Panels, could be regarded as substitute of natural solid wood and its major competitive edge is the improved price advantage and stable supply over comparable natural solid wood.

KEY FINANCIAL INFORMATION

The following table sets forth selected information of the Group's consolidated financial statement for the year/period indicated:

	Year ended 31 December			Six months ended	
	2013	2014	2015	30 June 2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue					
— Processed Wood Panels	390,414	465,304	588,929	229,993	288,650
— Processed Finger Joint Wood Panels	<u>90,871</u>	<u>47,432</u>	<u>20,951</u>	<u>10,187</u>	<u>5,676</u>
	<u>481,285</u>	<u>512,736</u>	<u>609,880</u>	<u>240,180</u>	<u>294,326</u>
Gross profit					
— Processed Wood Panels	131,392	127,299	149,999	53,083	74,452
— Processed Finger Joint Wood Panels	<u>9,628</u>	<u>7,492</u>	<u>4,156</u>	<u>1,958</u>	<u>1,210</u>
	<u>141,020</u>	<u>134,791</u>	<u>154,155</u>	<u>55,041</u>	<u>75,662</u>
Profit attributable to equity shareholders of the Company for the year/period	<u>53,129</u>	<u>63,728</u>	<u>75,113</u>	<u>24,469</u>	<u>36,726</u>

Revenue

The Group recorded an increase in its revenue by about RMB31.4 million or 6.5% from about RMB481.3 million for the year ended 31 December 2013 to about RMB512.7 million for the year ended 31 December 2014, and a further increase by about RMB97.2 million or 19.0% to about RMB609.9 million for the year ended 31 December 2015. The increase in revenue was mainly due to the increase in revenue of Processed Wood Panels.

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 due to the increase in revenue from less-shaved Processed Wood Panels.

Product mix

The following table sets forth revenue and sales volume by the Group's product type for the year/period indicated:

	2013			Year ended 31 December 2014			2015			Six months ended 30 June 2015			2016		
	Sales volume		%	Sales volume		%	Sales volume		%	Sales volume		%	Sales volume		%
	(m ³)	RMB'000		(m ³)	RMB'000		(m ³)	RMB'000		(m ³)	RMB'000		(m ³)	RMB'000	
Processed Wood Panels															
— traditional	44,714	207,839	43.2	17,583	86,670	16.9	7,338	35,829	5.9	3,630	17,447	7.3	1,986	9,844	3.4
— less-shaved	57,729	182,575	37.9	111,680	378,634	73.8	163,354	553,100	90.7	63,663	212,546	88.5	81,501	278,806	94.7
Processed Finger Joint Wood Panels															
	22,145	90,871	18.9	10,923	47,432	9.3	4,861	20,951	3.4	2,392	10,187	4.2	1,302	5,676	1.9
Total:	124,588	481,285	100.0	140,186	512,736	100.0	175,553	609,880	100.0	69,685	240,180	100.0	84,789	294,326	100.0

During the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, the Group has shifted its focus from traditional Processed Wood Panels to less-shaved Processed Wood Panels, and it is the Group's present intention and strategy to focus on the sales of less-shaved Processed Wood Panels going forward given the reasons as set out in the paragraph headed "Business of the Group — Processed Wood Panels" in this announcement. As set out in such paragraph, despite the lower average selling price and gross profit margin of less-shaved Processed Wood Panels, such shift of focus resulted in enhanced production efficiency, product output and sales volume, reduced average unit cost of sales and inventory turnover, and improved the Group's products price competitiveness. However, given that the less-shaved Processed Wood Panels have a lower average selling price and gross profit margin, the Directors believe that such shift may have an unfavourable impact to the Group's business and financial performance if there is substantial decrease in sales volume of less-shaved Processed Wood Panels.

Processed Wood Panels

Revenue from sales of Processed Wood Panels increased by about RMB74.9 million or 19.2% from about RMB390.4 million for the year ended 31 December 2013 to about RMB465.3 million for the year ended 31 December 2014, and further increased by about RMB123.6 million or 26.6% to about RMB588.9 million for the year ended 31 December 2015. The increase in sales of Processed Wood Panels was mainly due to the increasing market acceptance of and increase demand for the Processed Wood Panels as a result of the Group's sales and marketing promotion conducted in the first quarter of 2015 and the Group's participation in some major exhibitions in the first half of 2015 which expanded the Group's customer base. In addition, the new Huai'an Production Plant commenced its preliminary trial production and sales of the Processed Wood Panels in the fourth quarter of 2015. Given such, the percentage of sales of Processed Wood Panels increased from about 81.1% for the year ended 31 December 2013 to about 90.7% for the year ended 31 December 2014, and further increased to about 96.6% for the year ended 31 December 2015. 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 mainly due to the increase in demand of the less-shaved Processed Wood Panels as a result of the sales and marketing promotion conducted in 2015. The percentage of sales of Processed Wood Panels increased from about 95.8% for the six months ended 30 June 2015 to about 98.1% for the six months ended 30 June 2016.

Sales volume of Processed Wood Panels increased by about 26,820 m³ or about 26.2% from about 102,443 m³ for the year ended 31 December 2013 to about 129,263 m³ for the year ended 31 December 2014, and further increased by about 41,429 m³ or about 32.1% to about 170,692 m³ for the year ended 31 December 2015. The sales volume of Processed Wood Panels also increased by about 24.1% from about 67,293 m³ for the six months ended 30 June 2015 to about 83,487 m³ for the six months ended 30 June 2016.

Processed Finger Joint Wood Panels

Revenue from sales of Processed Finger Joint Wood Panels decreased by about RMB43.5 million or 47.9% from about RMB90.9 million for the year ended 31 December 2013 to about RMB47.4 million for the year ended 31 December 2014 and further decreased by about RMB26.4 million or 55.7% to about RMB21.0 million for the year ended 31 December 2015. The decrease was a result of the Group's intention to reduce the sales of the Processed Finger Joint Wood Panels and to shift its focus to the sales of less-shaved Processed Wood Panels. As the Group's production capacity was mainly used to produce Processed Wood Panels during the years ended 31 December 2014 and 2015, there was a decrease in sales of Processed Finger Joint Wood Panels in 2014 and 2015. Sales volume of Processed Finger Joint Wood Panels decreased substantially by about 11,222 m³ or about 50.7% from about 22,145 m³ for the year ended 31 December 2013 to about 10,923 m³ for the year ended 31 December 2014 and further decreased substantially by about 6,062 m³ or about 55.5% to about 4,861 m³ for the year ended 31 December 2015.

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 focus on the sales of less-shaved Processed Wood Panels instead of Processed Finger Joint Wood Panels. As a result, the sales volume of Processed Finger Joint Wood Panels decreased by about 1,090 m³ or 45.6% from about 2,392 m³ for the six months ended 30 June 2015 to about 1,302 m³ for the six months ended 30 June 2016.

Pricing policy and average selling price

The Group usually determines the selling price of its products on a market-oriented basis. The Group takes into account the following factors in determining the selling prices of its products:

- the expected gross profit margin of the Group's products;
- the wholesale price of solid wood;
- the market demand of the relevant downstream wood-based products;
- the economic condition in the PRC;
- the relative competitiveness of the Group's products as compared with other solid wood and other substituted products in terms of quality, commercial value, selling prices and application spectrum; and
- preferences of the customers and potential customers.

By taking into consideration of the above factors, the Group will be able to understand the latest development in the market and adjust its pricing accordingly.

As the Group's major products offer comparable appearance, hardness, endurance and other characteristics of the comparable natural solid woods, they are priced with reference to the market selling prices of these comparable natural solid woods in the market. The Processed Wood Products are less expensive than comparable natural solid wood as the Group's intention is to market its products as substitute of natural solid wood. Given the lower price of the Processed Wood Products over comparable natural solid wood, the Group would be able to promote its product to potential customers in terms of price. Hence, with lower price offered, this generally improves the market acceptance of the Group's product. Given the market-oriented pricing policy, the Group may not be able to, or may choose not to, shift any increase in cost of production to its customers in order to maintain the price competitiveness of the Group's products.

The following table sets forth an analysis of average selling price per m³ by the Group's product type for the year/period indicated:

	Year ended 31 December			Six months ended	
	2013	2014	2015	30 June	
	RMB (per m ³)	RMB (per m ³)	RMB (per m ³)	RMB (per m ³)	RMB (per m ³)
Processed Wood Panels	3,811	3,600	3,450	3,418	3,457
— traditional	4,648	4,929	4,883	4,806	4,957
— less-shaved	3,163	3,390	3,386	3,339	3,421
Processed Finger Joint Wood Panels	4,103	4,342	4,310	4,259	4,359

Gross Profit and gross profit margin

The Group's gross profit decreased by about 4.4% or RMB6.2 million from about RMB141.0 million for the year ended 31 December 2013 to about RMB134.8 million for the year ended 31 December 2014. The Group's gross profit increased by about RMB19.4 million or 14.4% to about RMB154.2 million for the year ended 31 December 2015. The decrease in the Group's gross profit for the year ended 31 December 2014 was mainly due to an increase in average purchase cost of wood materials. The increase in the Group's gross profit for the year ended 31 December 2015 was mainly due to the increase in sales volume of Processed Wood Panels which was partially offset by the decrease in average selling prices of the Processed Wood Products.

The Group's gross profit 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 the Group's gross profit was mainly due to the increase in average selling price and the increase in sales volume of the Group's products.

The Group's overall gross profit margin decreased from about 29.3% for the year ended 31 December 2013 to about 26.3% for the year ended 31 December 2014, and further decreased to about 25.3% for the year ended 31 December 2015. The decrease in the Group's overall gross profit margin for the year ended 31 December 2014 was a combined effect of increase in cost of wood materials and the substantial increase in the sales of less-shaved Processed Wood Panels which had a lower gross profit margin than traditional Processed Wood Panels. The decrease in the Group's overall gross profit margin for the year ended 31 December 2015 was a combined effect of the decrease in the average selling price of the Processed Wood Products due to sales and marketing promotion conducted in the first quarter of 2015 and the substantial increase in sales of less-shaved Processed Wood Panels which had a lower average selling price than traditional Processed Wood Panels.

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 due to the slight increase in the overall average selling price of the Group's products from about RMB3,447 per m³ for the six months ended 30 June 2015 to about RMB3,471 per m³ for the six months ended 30 June 2016. The slight increase in the overall average selling price of the Group's product was mainly a result of the sales discount offered to the Group's customers who placed sales orders in January and February of 2015 but no such sales discount was offered during the six months ended 30 June 2016. Also, the average unit cost of sales of the Processed Wood Products decreased from about RMB2,657 per m³ for the six months ended 30 June 2015 to about RMB2,579 per m³ for the six months ended 30 June 2016. The decrease in average unit cost of sales was mainly due to the increase in sales volume of less-shaved Processed Wood Panels and the average unit cost of sales of less-shaved Processed Wood Panels was lower than that of traditional Processed Wood Panels. As a result, the Group recorded an increase in overall gross profit margin for the six months ended 30 June 2016 as compared to the corresponding period in 2015.

Gross profit and gross profit margin by product type

The following table sets forth an analysis of gross profit and gross profit margin by the Group's product type for the year/period indicated:

	Year ended 31 December					Six months ended 30 June				
	2013		2014		2015	2015		2016		
	<i>Gross profit</i>	<i>margin</i>	<i>Gross profit</i>	<i>margin</i>	<i>Gross profit</i>	<i>Gross profit</i>	<i>margin</i>	<i>Gross profit</i>	<i>margin</i>	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Processed Wood Panels										
— traditional	80,050	38.5	30,824	35.6	12,874	35.9	5,919	33.9	3,560	36.2
— less-shaved	51,342	28.1	96,475	25.5	137,125	24.8	47,164	22.2	70,892	25.4
Sub-total:	131,392	33.7	127,299	27.4	149,999	25.5	53,083	23.1	74,452	25.8
Processed Finger Joint Wood Panels										
	9,628	10.6	7,492	15.8	4,156	19.8	1,958	19.2	1,210	21.3
Total:	<u>141,020</u>	<u>29.3</u>	<u>134,791</u>	<u>26.3</u>	<u>154,155</u>	<u>25.3</u>	<u>55,041</u>	<u>22.9</u>	<u>75,662</u>	<u>25.7</u>

Processed Wood Panels

Gross profit of Processed Wood Panels decreased from about RMB131.4 million for the year ended 31 December 2013 to about RMB127.3 million for the year ended 31 December 2014, and increased to about RMB150 million for the year ended 31 December 2015. The decrease in gross profit of Processed Wood Panels for the year ended 31 December 2014 was mainly due to the decrease in average selling price of Processed Wood Panels and the increase in average purchase cost of wood materials. The increase in gross profit of Processed Wood

Panels for the year ended 31 December 2015 was mainly due to the substantial increase in sales volume of less-shaved Processed Wood Panels which was partially offset by the decrease in average selling prices of Processed Wood Panels.

Gross profit margin of Processed Wood Panels decreased from about 33.7% for the year ended 31 December 2013 to about 27.4% for the year ended 31 December 2014, and further decreased to about 25.5% for the year ended 31 December 2015. The decrease in the gross profit margin of Processed Wood Panels for the year ended 31 December 2014 was mainly due to the increase in the costs of production materials and the increase in sales of less-shaved Processed Wood Panels which had a lower gross profit margin. The decrease in gross profit margin of Processed Wood Panels for the year ended 31 December 2015 was mainly due to the decrease in the average selling price of the Processed Wood Panels due to sales and marketing promotion conducted in the first quarter of 2015 and the increase in sales of less-shaved Processed Wood Panels which had a lower gross profit margin than traditional Processed Wood Panels.

Gross profit of Processed Wood Panels increased from about RMB53.1 million for the six months ended 30 June 2015 to about RMB74.5 million for the six months ended 30 June 2016. The increase in gross profit of Processed Wood Panels for the six months ended 30 June 2016 was mainly due to the increase in average selling prices of Processed Wood Panels and the increase in sales volume of less-shaved 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 due to the increase in average selling price from about RMB3,418 per m³ for the six months ended 30 June 2015 to about RMB3,457 per m³ for the six months ended 30 June 2016 because of sales discount offered to the Group's customers in January and February of 2015 but no sales discount was offered to the Group's customers during the six months ended 30 June 2016. Also, the average unit cost of sales of the Processed Wood Panels decreased from about RMB2,629 per m³ for the six months ended 30 June 2015 to about RMB2,566 per m³ 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 average unit cost of sales of less-shaved Processed Wood Panels was lower than that of traditional Processed Wood Panels.

Processed Finger Joint Wood Panels

In general, Processed Finger Joint Wood Panels have a lower gross profit margin than traditional Processed Wood Panels because Processed Finger Joint Wood Panels are made of cut-offs produced in the manufacturing processes of Processed Wood Panels, which are in irregular shapes and sizes. Processing these cut-offs requires more production processes, and more production materials and labour are consumed in the production process. Therefore, the average cost of sales per m³ 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 generally lower than that of the traditional Processed Wood Panels which resulted in a lower gross profit margin.

Gross profit of Processed Finger Joint Wood Panels decreased from about RMB9.6 million for the year ended 31 December 2013 to about RMB7.5 million for the year ended 31 December 2014, and further decreased to about RMB4.2 million for the year ended 31 December 2015. The decrease in gross profit of Processed Finger Joint Wood Panels for the year ended 31 December 2014 was mainly due to the increase average purchase cost of wood materials and the decrease in sales volume of Processed Finger Joint Wood Panels. The decrease in gross profit of Processed Finger Joint Wood Panels for the year ended 31 December 2015 was mainly due to the Group's intention to further reduce the sales volume of Processed Finger Joint Wood Panels and to focus on sale of less-shaved Processed Wood Panels.

Gross profit margin of Processed Finger Joint Wood Panels increased from about 10.6% for the year ended 31 December 2013 to about 15.8% for the year ended 31 December 2014, and further increased to about 19.8% for the year ended 31 December 2015. The increase in the gross profit margin of the Processed Finger Joint Wood Panels for the year ended 31 December 2014 was mainly due to the increase in the average selling price per m³ of Processed Finger Joint Wood Panels which exceed the increase in average purchase cost of wood materials per m³. The increase in the gross profit margin of the Processed Finger Joint Wood Panels for the year ended 31 December 2015 was mainly due to the increase in output ratio of Processed Finger Joint Wood Panels due to the improvement in production process which resulted in the decrease of average cost of sales.

Gross profit of Processed Finger Joint Wood Panels decreased from about RMB2.0 million for the six months ended 30 June 2015 to about RMB1.2 million for the six months ended 30 June 2016. The decrease in gross profit of Processed Finger Joint Wood Panels for the six months ended 30 June 2016 was mainly due to the Group's intention to further reduce the sales volume of Processed Finger Joint Wood Panels and to focus on sale of less-shaved Processed 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. Such increase was mainly due to the increase in average selling price from about RMB4,259 per m³ for the six months ended 30 June 2015 to about RMB4,359 per m³ for the six months ended 30 June 2016 because of sales discount offered to the Group's customers in January and February of 2015 but the Group did not offer sales discount during the six months ended 30 June 2016. Also, the average unit cost of sales of Processed Finger Joint Wood Panels remained at similar level for the six months ended 30 June 2015 and 2016.

Breakeven analysis

Revenue

Assuming that the product mix, contribution margin ratio and fixed costs for each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 remain unchanged, the following table sets forth the breakeven amount of revenue required for the Group to meet the fixed spending for the year/period indicated:

	Year ended 31 December			Six months ended
	2013	2014	2015	30 June 2016
Revenue required to breakeven (RMB'000)	271,358	230,043	245,744	114,825
Maximum percentage of decrease in the revenue of the Group for it to remain profitable without regard to change in price of raw materials	43.6%	55.1%	59.7%	61.0%

Cost of sales

For illustrative purposes of breakeven analysis only, for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, the Group would have neither made a profit nor a loss during the relevant year/period if the cost of sales had increased by 18.1%, 19.7%, 20.2% and 21.1%, respectively, and assuming all other variables remain constant.

Net profit and net profit margin

The net profit attributable to equity shareholders of the Company increased from about RMB53.1 million for the year ended 31 December 2013 to about RMB63.7 million for the year ended 31 December 2014, and further increased to about RMB75.1 million for the year ended 31 December 2015. The net profit attributable to equity shareholders of the Company increased substantially 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.

The increase in net profit attributable to equity shareholders of the Company for the year ended 31 December 2014 was mainly due to the increase in revenue, the increase in other revenue which was mainly due to the increase in government grants (which included a one-off government grant as a result of the successful listing of the Shares on GEM), the decrease in administrative expenses which was mainly due to the decrease in professional fees incurred in relation to the preparation of the listing of the Shares on GEM in 2013 and the decrease in research and development expenses as the research projects conducted in 2014 consumed lesser wood materials and impregnation fluids and a substantial decrease of finance cost as a result of the repayment of bank loans and other loans in 2014. The increase

in net profit attributable to equity shareholders of the Company for the year ended 31 December 2014 was partially offset by the increase in selling expenses and income tax expenses. Due to such factors, the Group's net profit margin increased from about 11.0% for the year ended 31 December 2013 to about 12.4% for the year ended 31 December 2014.

The increase in net profit attributable to equity shareholders of the Company for the year ended 31 December 2015 was mainly due to the increase in revenue and decrease in administrative expenses, which was mainly due to the decrease in research and development expenses as the research projects conducted in 2015 consumed lesser wood materials and impregnation fluids. The increase in net profit attributable to equity shareholders of the Company for the year ended 31 December 2015 was partially offset by the increase in income tax expenses. Due to such factors, the Group's net profit margin remained stable at about 12.4% for the year ended 31 December 2014 and at about 12.3% for the year ended 31 December 2015.

The substantial increase in net profit attributable to equity shareholders of the Company for the six months ended 30 June 2016 was mainly due to the increase in revenue from sales of less-shaved Processed Wood Panels which was partially offset by the increase in administrative expenses, finance costs and income tax expenses. The increase in administrative expenses was mainly due to the increase in staff costs because of the increase in number of administrative staff employed for the Huai'an Production Plant and the increase in professional fee in relation to the transfer of listing from GEM to Main Board of the Stock Exchange. The increase in finance costs was mainly due to the increase in interest expenses on finance lease for the acquisition of certain production machineries used by the Huai'an Production Plant. The increase in income tax expenses was mainly due to the increase in profit before taxation. Also, Jiangsu AMS is subject to the PRC corporate income tax rate of 25% while Hebei AMS continues to enjoy the preferential PRC corporate income tax of 15%. Therefore, profit derived from Jiangsu AMS has to pay a higher income tax rate which resulted in the increase in income tax expenses. Due to such factors, 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.

Net profit and net profit margin after excluding one-off listing expenses

The net profit attributable to equity shareholders of the Company (after excluding the one-off listing expenses) increased from about RMB61.1 million for the year ended 31 December 2013 to about RMB65.3 million for the year ended 31 December 2014, and further increased to about RMB75.1 million for the year ended 31 December 2015.

In addition, the Group's net profit margin (after excluding the one-off listing expenses) remained the same at about 12.7% for the years ended 31 December 2013 and 2014 but slightly decreased to about 12.3% for the year ended 31 December 2015.

The Group did not incur any material one-off listing expenses for the six months ended 30 June 2015 and 2016.

Trade receivables

The following table sets forth an analysis of the Group's trade receivables and credit terms granted by the Group for such trade receivables as at the year end indicated:

	As at 31 December		
	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade receivables	11,859	10,158	16,617
Credit terms	0–30 days	0–30 days	0–60 days

The trade receivables of about RMB16.6 million as at 31 December 2015 have been subsequently settled as at the Latest Practicable Date.

Trade payables

The following table sets forth an analysis of the Group's trade payables and credit terms granted to the Group for such trade payables as at the year end indicated:

	As at 31 December		
	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade payables	1,453	181	—
Credit terms	7–30 days	0–30 days	0–30 days

Major customers

The Group's major customers during the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 were domestic entities operated in the PRC. The following table sets forth information on the Group's five largest customers for each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016:

Customers	Nature of the main business of the customer	Nature of customer and its principal place of business	Processed Wood Products purchased	Year ended 31 December 2013			
				Percentage of total revenue of the Group	Revenue contribution by product type		
					Processed Wood Panels Traditional RMB'000	Less-shaved RMB'000	Processed Finger Joint Wood Panels RMB'000
Dongguan Deman Wood Industry Company Limited* (東莞市德曼木業有限公司)	Manufacturer of doors	A private enterprise/ Dongguan, Guangdong province	Processed Wood Panels and Processed Finger Joint Wood Panels	15%	2,393	65,598	3,664
Tianjin Zhongguan Packaging Products Company Limited* (天津中冠包裝物製品有限公司)	Manufacturer of wooden crates and wooden pallets	A private enterprise/ Tianjin	Processed Wood Panels	12%	35,444	21,205	—
Foshan Shunde Chunhua Wood Industry Company Limited* (佛山市順德區椿華木業有限公司)	Wholesaler of wooden panels	A private enterprise/ Foshan, Guangdong province	Processed Wood Panels	8%	25,575	15,172	—
Chengdu Hongzhen Wood Industry Company Limited* (成都泓臻木業有限公司)	Wholesaler of wooden panels	A private enterprise/ Chengdu, Sichuan province	Processed Wood Panels and Processed Finger Joint Wood Panels	7%	17,132	7,395	7,496
Ningbo Qingzhou Qiuyi Yideng Stairs Factory* (寧波市鄞州丘隘藝登樓梯廠)	Manufacture of planks on stairs	A private enterprise/ Ningbo, Zhejiang province	Processed Wood Panels and Processed Finger Joint Wood Panels	6%	10,016	—	17,565

Year ended 31 December 2014

Customers	Nature of the main business of the customer	Nature of customer and its principal place of business	Processed Wood Products purchased	Percentage of total revenue of the Group	Revenue contribution by product type		
					Processed Wood Panels		Processed Finger Joint Wood Panels
					Traditional RMB'000	Less-shaved RMB'000	Panels RMB'000
Beixin International Wood Industry Company Limited* (北新國際木業有限公司)	Wholesaler of construction materials	A private enterprise/ Beijing	Processed Wood Panels and Processed Finger Joint Wood Panels	20%	30,653	68,132	4,731
Dongguan Deman Wood Industry Company Limited* (東莞市德曼木業有限公司)	Manufacturer of doors	A private enterprise/ Dongguan, Guangdong province	Processed Wood Panels	9%	584	44,645	—
Hebei Kuaiyou Wood Products Manufacturing Company Limited* (河北快優木製品製造有限公司)	Manufacturer of doors	A private enterprise/ Handan, Hebei province	Processed Wood Panels	8%	—	41,517	—
Foshan Shunde Chunhua Wood Industry Company Limited* (佛山市順德區椿華木業有限公司)	Wholesaler of wooden panels	A private enterprise/ Foshan, Guangdong province	Processed Wood Panels and Processed Finger Joint Wood Panels	5%	6,015	13,318	6,990
Huzhou Tangxi Wood Industry Company Limited* (湖州唐璽木業有限公司)	Wholesaler of wooden panels	A private enterprise/ Huzhou, Zhejiang province	Processed Wood Panels and Processed Finger Joint Wood Panels	4%	2,084	9,383	11,216

Year ended 31 December 2015

Customers	Nature of the main business of the customer	Nature of customer and its principal place of business	Processed Wood Products purchased	Percentage of total revenue of the Group	Revenue contribution by product type		
					Processed Wood Panels		Processed Finger Joint Wood Panels
					Traditional RMB'000	Less-shaved RMB'000	Panels RMB'000
Beixin International Wood Industry Company Limited* (北新國際木業有限公司)	Wholesaler of construction materials	A private enterprise/ Beijing	Processed Wood Panels	7%	1,915	43,096	—
Hebei Kuaiyou Wood Products Manufacturing Company Limited* (河北快優木製品製造有限公司)	Manufacturer of doors	A private enterprise/ Handan, Hebei province	Processed Wood Panels	7%	—	41,212	—
Boteli Weiye (Beijing) Furniture Company Limited* (伯特利偉業(北京)傢具有限公司)	Manufacturer of furniture	A private enterprise/ Beijing	Processed Wood Panels and Processed Finger Joint Wood Panels	5%	858	26,212	1,459
Dongguan Deman Wood Industry Company Limited* (東莞市德曼木業有限公司)	Manufacturer of doors	A private enterprise/ Dongguan, Guangdong province	Processed Wood Panels	4%	2,100	23,241	—
Jincheng Xiangyun (Beijing) Shangmao Trading Company Limited* (京城祥雲(北京)商貿有限公司)	Wholesaler of wooden panels	A private enterprise/ Beijing	Processed Wood Panels and Processed Finger Joint Wood Panels	4%	1,026	18,881	1,623

Six months ended 30 June 2016							
Customers	Nature of the main business of the customer	Nature of customer and its principal place of business	Processed Wood Products purchased	Percentage of total revenue of the Group	Revenue contribution by product type		
					Processed Wood Panels		Processed Finger Joint Wood Panels
					Traditional	Less-shaved	
RMB'000	RMB'000	RMB'000					
Foshan Yushi Shijia Furniture Company Limited* (佛山市域詩世家傢俱有限公司)	Manufacturer of furniture	A private enterprise/ Foshan, Guangdong Province	Processed Wood Panels	5%	1,453	13,755	—
Hebei Kuaiyou Wood Products Manufacturing Company Limited* (河北快優木製品製造有限公司)	Manufacturer of doors	A private enterprise/ Handan, Hebei Province	Processed Wood Panels	5%	—	15,186	—
Shaanxi Tiankuo Wood Industry Company Limited* (陝西添闊木業有限公司)	Wholesaler of wooden panels	A private enterprise/ Xi'an, Shaanxi Province	Processed Wood Panels	5%	—	14,791	—
Tianjin Shengzhongjia Trading Company Limited* (天津市盛中嘉商貿有限公司)	Wholesaler of wooden panels	A private enterprise/ Tianjin	Processed Wood Panels and Processed Finger Joint Wood Panels	4%	—	7,881	3,502
Shaanxi Zhongrui Shidai Furniture Company Limited* (陝西中瑞時代傢俱有限責任公司)	Manufacturer of furniture	A private enterprise/ Xian'yang, Shaanxi Province	Processed Wood Panels	3%	—	10,257	—

The Group had a total of 100, 91, 127 and 81 customers as at 31 December 2013, 2014 and 2015 and as at 30 June 2016, respectively. Among these customers, there were 55, 74, 120 and 78 customers who purchased the less-shaved Processed Wood Panels as at 31 December 2013, 2014 and 2015 and as at 30 June 2016, respectively.

There were changes in the list of major customers during the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 due to the following reasons:

- the Group had put significant efforts in promoting its Processed Wood Products through participation in industry exhibitions and trade fairs, broadening the Group's access to, and attracting the attention and interest from, new and potential customers in different geographical locations and industries. Such efforts had allowed the Group in higher flexibility in its strategic selection of customers, taking into accounts the location and background of the customers, the terms of sales offered, the potential effect for market diversification and other factors; and
- the Group's customers experienced changes in demands and preferences in market, and they need to adjust their own products portfolios (including the production materials used) to cater for such changes. This will affect their selection of production materials, including the use and the quantities of the Processed Wood Products needed as the production material for their products.

None of the Directors, their respective close associates or, so far as the Directors are aware of, Shareholders who own 5% or more of the issued share capital of the Company, or has any interest in any of the five largest customers for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016. All of the five largest customers for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 are Independent Third Parties.

Major suppliers

The Group sources its production materials principally from suppliers which are domestic entities operating in the PRC. The following table sets forth information on the Group's five largest suppliers for each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016:

Year ended 31 December 2013

Suppliers	Nature of the main business of the supplier	Production materials purchased	Percentage of total purchases of the Group
Supplier A	Planting of fast growing wood forests and wholesaler of poplar logs and wood panels	Poplar logs	8%
Supplier B	Supplier of chemical ingredients	Chemical ingredients	8%
Supplier C	Supplier of wooden panels	Wood panels	7%
Supplier D	Supplier of wooden panels	Wood panels	7%
Supplier E	Supplier of wooden panels	Wood panels	6%

Year ended 31 December 2014

Suppliers	Nature of the main business of the supplier	Production materials purchased	Percentage of total purchases of the Group
Supplier F	Supplier of wooden panels	Wood panels	9%
Supplier G	Supplier of wooden panels	Wood panels	8%
Supplier B	Supplier of chemical ingredients	Chemical ingredients	7%
Supplier H	Supplier of wooden panels	Wood panels	7%
Supplier I	Supplier of wooden panels	Wood panels	7%

Year ended 31 December 2015

Suppliers	Nature of the main business of the supplier	Production materials purchased	Percentage of total purchases of the Group
Supplier I	Supplier of wooden panels	Wood panels	9%
Supplier F	Supplier of wooden panels	Wood panels	8%
Supplier J	Supplier of wooden panels	Wood panels	7%
Supplier B	Supplier of chemical ingredients	Chemical ingredients	6%
Supplier K	Supplier of wooden panels	Wood panels	5%

Six months ended 30 June 2016

Suppliers	Nature of the main business of the supplier	Production materials purchased	Percentage of total purchases of the Group
Supplier F	Supplier of wooden panels	Wood panels	7%
Supplier I	Supplier of wooden panels	Wood panels	7%
Supplier B	Supplier of chemical ingredients	Chemical ingredients	6%
Supplier J	Supplier of wooden panels	Wood panels	6%
Supplier L	Supplier of wooden panels	Wood panels	6%

None of the Directors, their respective close associates or, so far as the Directors are aware of, Shareholders who own 5% or more of the issued share capital of the Company, or has any interest in any of the five largest suppliers for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016.

Research and development and staff cost

Research and development

The Group's research and development expenses decreased from about RMB29.7 million for the year ended 31 December 2013 to about RMB25.9 million for the year ended 31 December 2014, and further decreased to about RMB20.4 million for the year ended 31 December 2015. The decrease in research and development expenses for the years ended 31 December 2013, 2014 and 2015 was mainly due to the decrease in the materials used and consumed (such as wood) in conducting the research and development projects. The amount of materials used and consumed depends on the nature of each research projects and may vary during different stages of the research. For example, in an early stage of research and development in respect of the modification of the impregnation fluid, the Group's research and development team generally uses lesser wood materials for testing, while more wood materials would be required for larger scale, pre-trial production testing at later stage. Hence, there will be fluctuation in the Group's research and development expenses from time to time and there is no direct correlation between the research and development expenses incurred by the Group and the number of research and development projects the Group conducts.

Given the above, the Directors believe that the decrease in research and development expenses will not have any material impact on the Group's business operations and financial performance.

The Group's research and development expenses remained at similar level at about RMB10.1 million and RMB10.4 million for the six months ended 30 June 2015 and 2016 respectively as the cost of wood materials consumed for the research and development projects conducted had no material fluctuation.

Staff cost

The Group's staff cost increased from about RMB21.1 million for the year ended 31 December 2013 to about RMB24.1 million for the year ended 31 December 2014, and decreased to about RMB22.6 million for the year ended 31 December 2015. The decrease in the Group's staff cost was mainly due to the fact that the Group shifted its focused to the production of more less-shaved Processed Wood Panels which involves lesser production processes and subsequent processing (such as cutting and further shaving and trimming processes) and consequently reduced the labour required for production and thereby reducing the overall staff cost. Furthermore, due to the continuous refinement of the Group's production process, and the additions of more advanced equipment, the Group was able to utilize its production capacity more efficiently and resulted in decrease in staff cost.

Given the above, the Directors believe that the decrease in staff cost will not have any material impact on the Group's business operations and financial performance.

The staff cost increased by about RMB3.0 million from about RMB10.3 million for the six months ended 30 June 2015 to about RMB13.3 million for the six months ended 30 June 2016. The increase was mainly due to the increase in number of factory labours and administrative staff employed for the Huai'an Production Plant which commenced preliminary trial production in October 2015.

RECENT DEVELOPMENT

Ever since the listing of the Shares on GEM, the Group continued to achieve advancing revenue and maintained stable growth in the profit attributable to equity shareholders of the Company. 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.

Establishment of Huai'an Production Plant

In late 2014, the Directors after taken into consideration the increasing sales volume in 2014, the expected increase in sales volume thereafter, and the then estimated utilization rate of the Handan Production Plant, believe that the establishment of a second production plant will be beneficial to the Group as a whole as it will enhance the Group's production capacity to meet projected increase in sales. Therefore, in December 2014, the Group entered into an agreement with the administration committee of Huai'an Industrial Zone in Huai'an, Jiangsu Province for an investment to build a new production plant, the Huai'an Production Plant, in Huai'an Industrial Zone. Occupying an area of about 141,000 m², the Huai'an Production Plant will be mainly used to produce Processed Wood Products. To facilitate the Group's expansion into, and development in Huai'an, the Group established a new indirect wholly-owned subsidiary of the Company, Jiangsu AMS, in Huai'an, Jiangsu Province, the PRC, in March 2015 with a registered capital of RMB220.5 million.

To construct the Huai'an Production Plant, the Group entered into two land use rights transfer contracts with Huai'an Land Resources Bureau for the acquisition of two parcels of land as set out below at the date indicated:

Date	Location of the land acquired	Consideration
1. December 2015	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, Jiangsu Province, the PRC, with a total site area of about 45,395 m ² , which is adjacent to the land set out in (2) below	About RMB12.5 million
2. June 2016	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, Jiangsu Province, the PRC, with a total site area of about 79,858 m ²	About RMB22.8 million

Both of the above lands were used to construct the Huai'an Production Plant. The reason for the acquisition of the above lands was to enhance the Group's production capacity of its Processed Wood Products.

The Group has selected Huai'an as the location of its new production plant because Jiangsu Province experienced rapid economic growth and enjoys convenient transportation access and an advantageous natural environment. Standing in the core area north of the Yangtze River in Jiangsu, Huai'an is conveniently accessible with abundant forest resources, thereby making it one of the top industrialized cities with forestry in the PRC. Apart from attracted by the momentum of the economic growth of Huai'an, the new production plant will help to reduce the logistics costs of the Group's customers located in Eastern side of the PRC.

Furthermore, the Group can further promote the market recognition of the Processed Wood Products, expand the application spectrum and improve the quality of the Processed Wood Products, and provide a solid backing for market expansion across the country by expanding sales volume through the Group's sales offices established in Beijing, Shanghai and Chengdu. Also, the Huai'an Production Plant will focus on energy conservation, production efficiency and high efficiency in the design of production processes and will apply latest technology in place of some labour-intensive processes so as to reduce labour costs.

The Group completed the construction of the Huai'an Production Plant in the third quarter of 2015 and it commenced its commercial production in June 2016. With the commencement of the commercial production of the Huai'an Production Plant, the Group's production capacity is expected to double.

As none of the applicable percentage ratios (as set out in Rule 19.07 of the GEM Listing Rules) in respect of the acquisition of the land in December 2015 exceeds 5%, such acquisition does not constitute a notifiable transaction for the Company and is therefore not subject to the notification and announcement requirements under Chapter 19 of the GEM Listing Rules.

The Strategic Cooperative Agreement with System TM A/S and HOMAG China Golden Field Limited

In December 2015, the Group entered into a strategic cooperative agreement (“**Strategic Cooperative Agreement**”) with System TM A/S and HOMAG China Golden Field Limited (金田豪邁木業機械有限公司) (“HOMAG China Golden Field”). This strategic cooperative agreement relates to “Industry 4.0” and production line solutions for the Handan Production Plant and the Huai’an Production Plant, as well as technologies on high-value utilisation and development of plantations. System TM A/S is a top-tier provider of comprehensive automated wood processing production line solutions in Europe, while HOMAG China Golden Field is the distributor in the PRC for HOMAG Group, a world-leading wood equipment manufacturer from Germany.

The following are the major terms and conditions of the Strategic Cooperative Agreement:

Obligations of the Group:

- Provide suitable warehouse and site to install Industry 4.0 production line;
- Participate actively with TM A/S and HOMAG China Golden Field during the installation and commissioning period of the Industry 4.0 production line; and
- The Group, TM A/S and HOMAG China Golden Field will enter into separate agreement in due course to further the proposed terms of the installation of the Industrial 4.0 production line and the Group shall pay the relevant expenses to be set out therein.

Obligations of TM A/S and HOMAG China Golden Field:

- Provide the Group with Industry 4.0 line design, installation and commissioning in accordance with the Group’s production process;
- Revise, upgrade and expand existing machine control and software to improve productivity and wood utilization rate;
- Remove, reconstruct, install and start-up of machine (if necessary);
- Production, system analysis and optimization;
- Training of the Group’s employees/operators on the usage and maintenance of machine;
- Consultation service;
- Providing spare parts and upgrading software and hardware;

- Provision of warranty services for its machine; and
- Provide support and advice to the Group based on their technical expertise and experience.

Consideration:

- The Strategic Cooperative Agreement sets out the mutual agreement between the Group, TM A/S and HOMAG China Golden Field on certain commercial terms in relation to the cooperation for the development of the Industrial 4.0 production line and its solutions, as well as technologies on high-value utilization and development of plantations. Such agreement does not contain any commitment of funds requirement on any of the parties to the agreement.

Term and termination provision:

- The Strategic Cooperative Agreement became effective on 7 December 2015 (the date of signing of the Strategic Cooperative Agreement) and will remain in effect until modified or terminated by any one of the parties by mutual consent. In the absence of mutual consent among the parties to agreement, the Strategic Cooperative Agreement shall terminate.

Registration of patents

Registration of four research and development patents, for which the Group applied in 2012, has been approved in 2014.

Research and development

The Group began its research and development on the use of impregnation fluid on coniferous and broad leaf tree species, so as to introduce more optimised wood products by broadening the application of impregnation fluid, and the progress is satisfactory. Furthermore, the Group's has commenced its research on wood dyeing technology and high-temperature processing technology, which is expected to further enhance the quality and variety of the Group's products.

Environmental-friendly products

In April 2014, the Group's products passed the requirements promulgated by European Chemicals Agency as well as the tests for 19 heavy metal elements, which further proved that the Group's products are green, eco-friendly and pollution-free.

Participation in exhibitions and establishment of new sales offices

In order to expand and strengthen the Group's market shares based on its strong research and development capability and technology, the Group participated in several large-scale exhibitions for construction materials and furniture, and established three sales offices in Beijing, Chengdu and Shanghai since 2014 to expand its sales network.

Recognitions

In 2015, Hebei AMS was recognized again as an Advanced and New Technology Enterprise (高新技術企業) for a term of another three calendar years from 2015 to 2017. In 2014, the Group was honoured to be recognised as a “Vice President Unit” (副會長單位) of the China Wood Protection Industry Association (CWPIA) by the 7th Conference of China Wood Protection Industry and Forums of New Technological on Wood Optimization of Plantation* (第七屆中國木材保護工業大會暨人工林木材優化新技術發展高峰論壇). Mr. Li Li, an executive Director and chief executive officer of the Company, has also been honoured as an “Outstanding Young Entrepreneur” (傑出青年企業家) at the first Jintan Award of China Wood Industry* (中國木業金檀獎).

The Group also actively participated in industry events to broaden the development areas of “wood optimisation” in terms of technology and commerce and strengthen the Group’s leading position in its field. The Group will continue to advocate its corporate philosophy of “cherishing the fascinating virgin forest” and pioneer in the way to eco-friendly timber ecology. In the second half of 2015, the Group was invited to attend The Fourth Summit of China and Central and Eastern European Countries (1+16 Cooperation)* (中國 — 中東歐國家領導人會晤(1+16 合作)) and The China, Central and Eastern European Countries Economic and Trade Forum* (中國 — 中東歐經貿論壇) held at Suzhou Taihu International Conference Center from 24 to 25 November 2015 and the 21st United Nations Climate Change Conference* (第21屆聯合國氣候變化大會) and an exhibition held in Paris, France from 30 November to 11 December 2015. Adhering to its principles on environmental protection and high-value application of wood and related products, the Group demonstrated to the world the PRC’s efforts and achievements in technological innovation, environmental protection and climate change management.

No material adverse change

To the best of the Directors’ knowledge, there has been no unfavourable trends or developments which may have a material adverse impact to the Group’s business and financial performance subsequent to 30 June 2016 (being the date to which the latest interim results of the Group were prepared as set out in the interim report of the Company for the six months ended 30 June 2016) and up to the Latest Practicable Date.

PROSPECTS AND BUSINESS STRATEGIES

Prospects

The PRC is one of the countries with inadequate timber resources and deficient forest resources available for development. Meanwhile, Russia, New Zealand and Canada, being the largest countries from which the PRC imports timber, have imposed restrictions on logging and export. Consequently, the imbalanced demand and supply of timber raw materials has intensified, leading to a rising price in natural wood. The Processed Wood Products can be used as alternatives for a wide variety of natural wood. The Processed Wood Products are widely used to produce floor planks, doors and furniture in the interior wood product industry, capturing enormous opportunities and used as an alternative supply to satisfy the demand for wood in the PRC market.

Business strategies

Establishment of the Group's impregnation fluids production factory

In order to enhance the Group's business operations and growth, the Group intends to establish and construct in 2018 its own impregnation fluids production factory in either Jiangsu, Shandong, Anhui or Henan Province of the PRC for the supply of impregnation fluids for the Group's production plants. The expected annual production capacity of such impregnation fluids production factory is about 50,000 tons and the estimated investment cost will be about RMB50 million.

Continue to strengthen the Group's research and development

The Group will continue to enhance and strengthen its expertise and know-how for the development of its products by hiring more research and development specialists who possess relevant knowledge and experience in wood preservation, chemistry or technology related to Wood Processing Procedure within the next two years. The Group shall also look for opportunities in collaborating with research and academic institutes in the PRC and overseas which specializes in areas of wood processing. The Group also intends to acquire advance equipment for its research and development to improve its automated wood processing production process.

The Group will also continue on the research and development of its impregnation fluid so as to enhance its reputation and broadening the application of such fluid to other tree species to introduce more optimised wood products. Moreover, the Group will continue to build on its industry experiences, expand its customer base and consolidate its market position in the PRC.

With the expansion in production capacity resulting from the completion of the Huai'an Production Plant, the Group intends to expand its core technology to build the concept of "grand R & D platform". As wood optimization is still a relatively new industry, the concept of grand R & D platform is to attract more specialists and research and development institutes in the wood industry to join and promote the development of wood optimization industry with an aim to benefit the Group and the wood industry as a whole.

The Group's major raw material, poplars, has a relatively short growth cycle therefore its supply in the PRC is relatively abundant and stable. As such it is cheaper than natural solid wood (e.g. *Quercus mongolica*, Ash and Elm). Unprocessed poplar is relatively soft with low density and is easily subject to deforms, cracks and defects. Wood optimization is a process whereby natural woods (such as poplar) are processed through impregnation by applying impregnation fluid into the natural woods under vacuum and high pressure. Such natural woods after going through wood optimization are enhanced in terms of hardness, shrinkage and swelling rate, density, deformation resistance, cracking resistance, anti-corrosiveness, bending strength and elasticity, and characterized with designated features such as moisture resistance and flammability resistance. The benefit of wood optimization is that it improves characteristics of natural woods and on the other hand preserves the natural wood grain and figure. Given such, the Group is able to use low cost poplars to manufacture Processed Wood Products that could be used as substitute of natural solid wood.

The Group intends to develop an efficient research and development platform whereby it can attract more specialists to join the Group, to enhance the Group's research and development capability and to cooperate with other relevant institutes in the wood industry so as to further strengthen the Group's position in wood optimization field, and to develop the Group into a knowledge-based and science and technology orientated company. The grand R&D platform is only at its conceptual stage and the Group currently does not have any detailed plans for this platform.

The Group will utilize resources in a highly efficient manner by the application of scientific methods, break the barriers within industries, take advantages in various aspects, and guide the industry towards the achievement of common goals. The Group also intends to develop into a knowledge-based enterprise by operating through the research and development life cycle of products, covering various stages such as product planning, demand analysis, project planning, task tracking, quality testing and knowledge system management, and transiting from popular to functional product structural system, in order to cover all markets and achieve maximization of market share and profit ratio.

The Group will continue to improve production operation and management

The Group plans to continue to upgrade and maintain an effective and efficient management and operation system. In recognition of the Group's efforts on maintaining international standards of quality management system, Hebei AMS and Jiangsu AMS have been accredited with ISO9001:2015 and ISO14001:2015 for its research and manufacture of orienting performance promoted solid wood panels in July 2016. Orienting performance promoted solid wood panels is the academic term used to denote woods that have gone through the process of wood optimization (such as the Processed Wood Products). The Group will explore alternative production processes and process refinements that may further improve the efficiency of the Group's production process. The Huai'an Production Plant will focus on energy conservation, production efficiency and high efficiency in the design of production processes and will apply latest technology in place of some labour-intensive processes so as to reduce labour costs. The Group will also explore and adopt additional energy-saving measures to improve its production efficiency. The Directors believe that these improvements to the Group's production process, including labour efficiency, system automation and energy conservation, will help to reduce the Group's costs and increase its profitability.

The Group will continue to expand its sales network

The Group expects the demand for its products in the PRC will continue to grow. In addition to the Group's sales offices in Beijing, Shanghai and Chengdu, the Group plans to expand its sales network by establishing a sales office for its products in Liaoning province to increase the Group's coverage within the PRC. The establishment of a sales office in Liaoning province will help to promote sales and to enable the Group to have direct access to customers and potential customers in Liaoning province. The Group will continue to recruit more experienced sales and marketing staff and provide regular training to these staff. The Group aims to establish an energetic, self-motivated, experienced and well-trained sales and marketing team equipped with the technical knowledge to provide professional services to the Group's customers.

The Group also intends to continue to promote its products by participating in industry exhibitions and trade fairs. Based on the Group past experience, participation in industry exhibitions and trade fairs is an effective marketing method to promote the Group's product. In addition, the Group will also explore the business opportunity for the provision of Wood Processing Procedure services to its customers since some customers may consider to carry out the processes of drying, shaving and cutting by themselves in order to reduce their purchase cost.

Further develop the Group's products according to the expected growth trend as a result of PRC's national policy in promoting stricter forest conservation policies

The PRC government has been focusing on forest conservation and logging industries are required to comply with various forest conservation requirements and standards as imposed by applicable laws and regulations. The Directors are of the view that the supply of solid wood will be affected by environmental concerns and more stringent regulations and that as a substitute of natural solid wood, the demand for the Processed Wood Products will benefit from the supplies and costs pressures of natural solid wood.

USE OF PROCEEDS

The net proceeds from the Placing after deducting listing-related expenses were about HK\$229.6 million. The use of the net proceeds from the GEM Listing Date to 31 December 2015 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)	Unutilized net proceeds from Placing as at 31 December 2015 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	7.6
3. Expansion of the Group's production capacity (Note 2)	84.4	82.9	1.5
4. Repayment of loans	68.2	68.2	—
5. General working capital and other general corporate purposes	<u>33.2</u>	<u>33.2</u>	<u>—</u>
Total:	<u>229.6</u>	<u>220.5</u>	<u>9.1</u>

Notes:

1. Calculated based on the net proceeds received from the Placing of about HK\$229.6 million.
2. The change in use of part of the net proceeds of about HK\$31.3 million, which was previously planned for the acquisitions of a chemical factory and a wood processing factory, has been fully utilized to finance the establishment of the Huai'an Production Plant during the year ended 31 December 2015. For details, please refer to the announcement of the Company dated 9 January 2015 relating to the change in use of proceeds.

For the unutilized net proceeds from Placing of about HK\$7.6 million which are allocated for the continuing expansion of the Group's sales network, the Group expects to apply such net proceeds partially 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. For the unutilized net proceeds from Placing of about HK\$1.5 million which are allocated for the expansion of the Group's production capacity, the Group expects to apply such net proceeds to pay part of the cost for equipment for the Huai'an Production Plant.

CHANGE IN USE OF PROCEEDS

Reference is made to the announcement of the Company dated 9 January 2015 relating to the change in use of proceeds. As disclosed in the Prospectus, the Group intended to acquire a factory that possesses chemical processing ability that may assist the Group in the production of impregnation fluid and a wood processing factory in 2014. The Group had approached several factories which possess chemical processing ability and wood processing capacity during the year 2014 but none of them can fulfill the Group's acquisition requirements. On 29 December 2014, the Group entered into an investment agreement with the Administrative Committee of the Jiangsu Huai'an Industrial Park (江蘇淮安工業園區管委會) to establish Jiangsu AMS and the Huai'an Production Plant. In view of the required capital investment in the Huai'an Production Plant, the Group has decided to change its use of part of the net proceeds of about HK\$31.3 million, which was previously planned for the acquisitions of a chemical factory and a wood processing factory, to finance the establishment of Huai'an Production Plant, allowing the Group to further expand the business coverage for the future development of the Group. As at the date of this announcement, the Directors do not have any immediate plan to further change the use of proceeds.

The following table sets forth the breakdown of the expenditure incurred and to be incurred for the establishment of the Huai'an Production Plant as of the Latest Practicable Date and its funding:

	Approximate amount HK\$ million	Source of funding
Expenditure incurred as of the Latest Practicable Date	230.7	Partially funded by net proceed from the Placing of HK\$84.4 million and the balance was funded by internal resources and other loans
Expenditure to be incurred as of the Latest Practicable Date	NIL	N/A

LEGAL COMPLIANCE

As advised by the Company's PRC legal adviser, as at the Latest Practicable Date, each of the subsidiaries of the Company in the PRC had obtained all material licences, permits and approvals from the relevant regulatory authorities in the PRC in relation to its establishment and business operations which are material to the Group's business operation, and has complied with all the applicable laws and regulations in relation to its business operations in all material aspects. Given such, the Directors and Guotai Junan Capital Limited, the financial adviser to the Company, are of the view that the Group has fully complied with applicable laws and regulations in relation to its business operations in all material aspects as at the Latest Practicable Date.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection on the websites of the Company at www.chinawood.com.hk and the Stock Exchange at www.hkexnews.hk and www.hkgem.com:

- (a) the amended and restated memorandum of association of the Company and Articles;
- (b) the Directors' report and annual report of the Company for the year ended 31 December 2015;
- (c) the interim report of the Company for the six months ended 30 June 2016;
- (d) the circular of the Company dated 31 March 2015 in relation to the general mandates to issue and repurchase Shares, re-election of Directors and re-appointment of auditors; and
- (e) the circular of the Company dated 29 March 2016 in relation to the general mandates to issue and repurchase Shares, re-election of Directors, re-appointment of auditors, amendments to the Articles and adoption of the new amended and restated memorandum of association of the Company and Articles;
- (f) each of the announcements and other corporate communications made by the Company prior to the date of this announcement as required under the Listing Rules and the GEM Listing Rules.

DEFINITIONS

In this announcement, the following expressions have the following meanings unless the context requires otherwise:

“Articles”	the amended and restated articles of association of the Company (as amended from time to time)
“Board”	the board of Directors
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Company”	China Wood Optimization (Holding) Limited (中國優材(控股)有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on GEM
“controlling Shareholder(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Director(s)”	director(s) of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM (as amended from time to time)
“GEM Listing Date”	the date on which the Shares were listed on GEM, being 6 January 2014
“Group”	the Company and its subsidiaries from time to time
“Hebei AMS”	Hebei AMS Wood Processing Co., Ltd (河北愛美森木材加工有限公司), a wholly foreign-owned enterprise established in the PRC and an indirect wholly owned subsidiary of the Company
“HKSCC”	the Hong Kong Securities Clearing Company Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huai’an Land Resources Bureau”	Huai’an Land Resources Bureau* (淮安市國土資源局), an Independent Third Party
“Independent Third Party(ies)”	a party which is not connected (as defined in the Listing Rules) to the directors, substantial shareholders or chief executive of the Company or its subsidiaries and their respective associates

“Jiangsu AMS”	Jiangsu AMS Wood Industry Company Limited (江蘇愛美森木業有限公司), a wholly foreign-owned enterprise established in the PRC and an indirect wholly owned subsidiary of the Company
“Latest Practicable Date”	1 September 2016, being the latest practicable date prior to the issue of this announcement for ascertaining certain information contained in this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) which stock market continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
“Placing”	the placing of 250,000,000 Shares for the listing of the Shares on GEM as set out in the Prospectus
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Prospectus”	the prospectus of the Company dated 30 December 2013
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Option Scheme”	the share option scheme adopted by the Company on 20 December 2013
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the GEM Listing Rules
“substantial shareholder(s)”	has the meaning ascribed thereto under the GEM Listing Rules

“Transfer of Listing”	the transfer of listing of the Shares from GEM to the Main Board pursuant to Chapter 9A of the Listing Rules
“m ² ”	square metre(s)
“m ³ ”	cubic metre(s)
“%”	per cent

* *for identification purposes only*

Certain amounts and percentage figures included in this announcement have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

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

Hong Kong, 2 September 2016

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

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its publication. This announcement will also be published on the Stock Exchange at www.hkexnews.hk and the Company’s website at www.chinawood.com.hk.