Wood Optimization

China Wood Optimization (Holding) Limited
中國優材(控股)有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1885)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2016, operating results of the Group were as follows:

— Revenue reached about RMB486.5 million (2015: RMB609.9 million), representing a decrease of 20.2% from last year;

— Profit for the year amounted to about RMB70.2 million (2015: RMB75.1 million), representing a decrease of 6.5% from last year;

— Basic earnings per share for the year based on weighted average number of ordinary shares of 1,000,000,000 shares (2015: 1,000,000,000 shares) in issue was RMB7.0 cents (2015: RMB7.5 cents);

— Diluted earnings per share for the year based on weighted average number of ordinary shares of 1,000,000,000 shares (2015: 1,000,000,000 shares) in issue was RMB7.0 cents (2015: RMB7.5 cents); and

— The directors of the Company ("Directors") recommend the payment of a final dividend of Hong Kong Dollar ("HK$") 0.02 per share for the year ended 31 December 2016 (2015: Nil).

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

The board of Directors (the "Board") of the Company is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016 together with the comparative figures for the preceding financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016
(Expressed in Renminbi ("RMB"))

	Note	**2016** *RMB'000*	2015 *RMB'000*
Revenue	3	**486,497**	609,880
Cost of sales	5(c)	**(341,128)**	(455,725)
Gross profit	3(b)	**145,369**	154,155
Other income	4	**6,566**	4,810
Selling expenses		**(3,117)**	(8,866)
Administrative expenses		**(50,369)**	(50,292)
Profit from operations		**98,449**	99,807
Finance costs	5(a)	**(8,364)**	(7,767)
Profit before taxation	5	**90,085**	92,040
Income tax	6	**(19,892)**	(16,927)
Profit attributable to equity shareholders of the Company for the year		**70,193**	75,113
Earnings per share			
— Basic and diluted (RMB)	7	**0.070**	0.075

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016
(Expressed in RMB)

	2016	2015
	RMB'000	*RMB'000*
Profit for the year	**70,193**	75,113
Other comprehensive income for the year (before and after tax):		
Items that may be reclassified subsequently to profit or loss:		
— Exchange differences on translation into presentation currency	**136**	3,569
Total comprehensive income attributable to equity shareholders of the Company for the year	**70,329**	78,682

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

(Expressed in RMB)

	Note	**2016** **RMB'000**	2015 RMB'000
Non–current assets			
Property, plant and equipment		**313,320**	313,146
Investment properties		**6,918**	7,383
Lease prepayments		**54,890**	54,270
Intangible asset		–	18
Other receivables		**4,713**	3,992
Deferred tax assets		**8,372**	864
		388,213	379,673
Current assets			
Inventories		**150,698**	84,832
Trade receivables	8	**18,936**	16,617
Prepayments, deposits and other receivables		**27,905**	19,664
Prepaid income tax		–	21
Cash and cash equivalents	9	**115,817**	117,312
Pledged time deposits	10	**50,000**	42,300
		363,356	280,746
Current liabilities			
Trade and bills payables	11	**18,721**	–
Receipts in advance		**75**	198
Accrued expenses and other payables		**26,470**	52,843
Bank and other loans		**8,629**	37,169
Obligations under finance lease		**6,270**	7,358
Income tax payable		**8,794**	–
		68,959	97,568
Net current assets		**294,397**	183,178
Total assets less current liabilities		**682,610**	562,851

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016 (continued)
(Expressed in RMB)

	Note	**2016** **_RMB'000_**	2015 *RMB'000*
Non–current liabilities			
Bank and other loans		**44,828**	13,458
Obligations under finance lease		**5,487**	18,042
Deferred income		**33,063**	3,948
Deferred tax liability		**1,500**	–
		84,878	35,448
NET ASSETS		**597,732**	527,403
CAPITAL AND RESERVES	12		
Share capital		**7,921**	7,921
Reserves		**589,811**	519,482
TOTAL EQUITY		**597,732**	527,403

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016
(Expressed in RMB)

	Attributable to equity shareholders of the Company						
	Share capital *RMB'000* *(Note 12(b))*	**Share premium** *RMB'000*	**Other reserve** *RMB'000*	**Statutory reserves** *RMB'000*	**Exchange reserve** *RMB'000*	**Retained profits** *RMB'000*	**Total equity** *RMB'000*
Balance at 1 January 2015	7,921	259,976	30	19,617	1,250	159,927	448,721
Changes in equity for 2015:							
Profit for the year	–	–	–	–	–	75,113	75,113
Other comprehensive income	–	–	–	–	3,569	–	3,569
Total comprehensive income	–	–	–	–	3,569	75,113	78,682
Appropriation to reserves	–	–	–	8,685	–	(8,685)	–
Balance at 31 December 2015	7,921	259,976	30	28,302	4,819	226,355	527,403
Balance at 1 January 2016	7,921	259,976	30	28,302	4,819	226,355	527,403
Changes in equity for 2016:							
Profit for the year	–	–	–	–	–	70,193	70,193
Other comprehensive income	–	–	–	–	136	–	136
Total comprehensive income	–	–	–	–	136	70,193	70,329
Appropriation to reserves	–	–	–	8,130	–	(8,130)	–
Balance at 31 December 2016	7,921	259,976	30	36,432	4,955	288,418	597,732

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

1. CORPORATE INFORMATION

China Wood Optimization (Holding) Limited (the "Company") was incorporated in the Cayman Islands on 6 June 2012 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time. The shares of the Company were listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 6 January 2014. The listing of the Company's shares was transferred from the GEM to the Main Board of the Stock Exchange on 12 September 2016. The consolidated financial statements of the Company as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries (collectively referred to as the "Group"). The principal activities of the Group are the processing, production and sale of wooden products and rendering of wood processing procedure service.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Group.

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

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

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

(c) Changes in accounting policies

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

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

None of these developments have had a material effect on how the Group's results and financial position for the current or prior period have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the processing, production and sale of wooden products and rendering of wood processing procedure service.

Revenue represents the sales value of goods and services supplied to customers, net of value added tax.

There was no customer with transactions that exceeded 10% of the Group's revenue for the year ended 31 December 2016 (2015: no customer).

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

(b) Segment reporting

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

- Sales of Processed Wood Panels: this segment produces and sells wood panels which have gone through the Group's self–developed wood processing procedure, and also the shaving and sanding in accordance with the specifications of the customers.

- Sales of Processed Finger Joint Wood Panels: this segment sells wood panels which are produced from the pressing and laminating cut–offs arising from the trimming process of the Processed Wood Panels.

- Rendering of Wood Processing Procedure service: this segment processes the raw wood panels of the customers in accordance with the customers' requirement.

(i) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. The measure used for reporting segment result is gross profit. No inter–segment sales have occurred for the years ended 31 December 2016 and 2015. The Group's other operating expenses, such as selling and administrative expenses, and assets and liabilities, including the sharing of technical know–how, are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income and interest expenses is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 is set out below.

	2016			
	Sales of Wood Panels			
	Processed Wood Panels	**Processed Finger Joint Wood Panels**	**Rendering of Wood Processing Procedure service**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Revenue from external customers and reportable segment revenue	**414,438**	**9,675**	**62,384**	**486,497**
Reportable segment gross profit	**103,698**	**1,734**	**39,937**	**145,369**

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

During the year ended 31 December 2016, the Group started to render consignment wood processing procedure service to the certain customers, under which the Group processed the raw wood panels of the customers in accordance with the requirement of the customers and received processing service income.

(ii) Geographic information

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

4. OTHER INCOME

	2016	2015
	RMB'000	*RMB'000*
Interest income	**1,765**	1,401
Government grants	**2,773**	1,288
Rental income from operating leases	**1,341**	1,857
Net gain from sale of scrap materials	**1,021**	284
Net loss on disposal of property, plant and equipment	**(334)**	(20)
	6,566	4,810

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs:

	2016	2015
	RMB'000	*RMB'000*
Interest on bank and other loans	**5,525**	4,922
Finance charges on obligations under finance lease	**2,745**	–
Bank charges and other finance costs	**65**	45
Total finance costs	**8,335**	4,967
Net foreign exchange loss	**29**	2,800
	8,364	7,767

No borrowing costs have been capitalised for the year ended 31 December 2016 (2015: RMBNil).

(b) Staff costs#:

	2016	2015
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**25,220**	20,180
Contributions to defined contribution retirement schemes	**2,833**	2,386
	28,053	22,566

The employees of the subsidiaries of the Group established in the PRC participate in defined contribution retirement benefit schemes managed by the local government authority, whereby these subsidiaries are required to contribute to the schemes at rates ranging from 19% to 20% of the employees' basic salaries. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC, from the above mentioned retirement schemes at their normal retirement age.

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

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

(c) Other items:

	2016	2015
	RMB'000	*RMB'000*
Depreciation and amortisation#	**28,159**	20,121
Operating lease charges in respect of plant and buildings	**936**	3,382
Auditors' remuneration:		
– annual audit services	**2,823**	2,165
– other services	**302**	–
Research and development costs (including costs relating to staff costs disclosed in *Note 5(b)*)	**13,289**	20,366
Cost of inventories#	**341,128**	455,725

Cost of inventories includes RMB30,012,000 for the year ended 31 December 2016 (2015: RMB26,942,000), relating to staff costs and depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in Note 5(b) for each of these types of expenses.

6. INCOME TAX

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

	2016	2015
	RMB'000	*RMB'000*
Current taxation:		
– The PRC Corporate Income Tax	**25,900**	14,659
– The PRC Withholding Tax	**–**	2,000
	25,900	16,659
Deferred taxation:		
– Origination and reversal of temporary differences	**(7,508)**	268
– Retained profits to be distributed	**1,500**	–
	(6,008)	268
	19,892	16,927

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

	2016	2015
	RMB'000	*RMB'000*
Profit before taxation	**90,085**	92,040
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned *(Notes (i), (ii) and (iii))*	**23,339**	23,838
Tax effect of non–deductible expenses	**1,798**	2,253
Tax effect of non–taxable income	**(1)**	(68)
Tax concessions *(Note (iv))*	**(6,744)**	(11,096)
PRC Withholding Tax *(Note (v))*	**–**	(2,000)
Tax effect of retained profits to be distributed *(Note (v))*	**1,500**	–
Income tax	**19,892**	16,927

Notes:

(i) The Company and a subsidiary of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2016 (2015: 16.5%). No provision for Hong Kong Profits Tax has been made, as neither the Company nor the subsidiary of the Group incorporated in Hong Kong have assessable profits which are subject to Hong Kong Profits Tax for the year ended 31 December 2016 (2015: RMB Nil).

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

(iii) The subsidiaries of the Group established in the PRC are subject to the PRC Corporate Income Tax rate of 25% for the year ended 31 December 2016 (2015: 25%).

(iv) One of the subsidiaries of the Group established in the PRC obtained an approval from the tax bureau to be taxed as an advanced and new technology enterprise. Pursuant to the approval, this subsidiary is entitled to a preferential PRC Corporate Income Tax rate of 15% for a period of three years from 2015 to 2017. In addition to the preferential PRC Corporate Income Tax rate, this subsidiary is also entitled to an additional tax deductible allowance calculated at 50% of the qualified research and development costs incurred by this subsidiary.

(v) In November 2015, one of the subsidiaries of the Group established in the PRC has distributed a dividend of RMB40,000,000 to China Wood Optimization (HK) Limited ("China Wood HK"), a subsidiary of the Group incorporated in Hong Kong. This distributed dividend of RMB40,000,000 is subject to a PRC withholding tax rate of 5% according to the Sino–Hong Kong Double Tax Arrangement and the relevant regulations. PRC withholding tax amounted to RMB2,000,000 was paid in November 2015 accordingly.

One of the subsidiaries of the Group established in the PRC declared on 20 March 2017 that RMB30,000,000 retained profits will be distributed to China Wood HK. The directors are of the opinion that this dividend of RMB30,000,000 is subject to PRC withholding tax rate of 5% according to the Sino–Hong Kong Double Tax Arrangement and the relevant regulations. As a result a deferred tax liability of RMB1,500,000 has been provided as at 31 December 2016 accordingly.

Excluding the above RMB30,000,000, the rest taxable temporary differences relating to the undistributed retained profits of the subsidiaries of the Group established in the PRC amounted to RMB258,226,000 at 31 December 2016 (31 December 2015: RMB215,053,000), where deferred tax liabilities in respect of the 5% PRC withholding tax that would be payable on the distributions of these profits have not been recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

7. BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share for the year ended 31 December 2016 is calculated based on the profit attributable to equity shareholders of the Company of RMB70,193,000 (2015: RMB75,113,000) and the weighted average of 1,000,000,000 ordinary shares (2015: 1,000,000,000 ordinary shares) in issue during the year, calculated as follows:

	2016	2015
	'000	*'000*
Issued ordinary shares at 1 January	**1,000,000**	1,000,000
Weighted average number of ordinary shares at 31 December	**1,000,000**	1,000,000

(b) Diluted earnings per share

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

8. TRADE RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Trade receivables from third parties	**18,936**	16,617

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

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

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

	2016	2015
	RMB'000	*RMB'000*
Aged within 1 month, neither past due nor impaired	**11,896**	16,587
Aged from 1 to 2 months, neither past due nor impaired	**7,040**	30
	18,936	16,617

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

9. CASH AND CASH EQUIVALENTS

	2016	2015
	RMB'000	*RMB'000*
Cash at bank and on hand	**115,817**	117,312

The Group's operation in the PRC conducted its business in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

10. PLEDGED TIME DEPOSITS

	2016	2015
	RMB'000	*RMB'000*
Pledged time deposits with original maturity over 3 months *(Notes (i) and (ii))*	**50,000**	42,300

Notes:

(i) At 31 December 2016, time deposit of RMB16,000,000 (31 December 2015: RMB20,000,000) has been pledged for a bank loan of a third party customer of the Group amounting to RMB15,000,000 (31 December 2015: RMB18,000,000). This bank loan will be expired in April 2017.

At 31 December 2016, time deposit of RMB16,000,000 (31 December 2015: RMB22,300,000) has been pledged for a bank loan of a third party supplier of the Group amounting to RMB15,000,000 (31 December 2015: RMB20,000,000). This bank loan was expired and repaid by the borrower in March 2017 and as a result the pledge has been released at the same time.

The above pledge for bank loans constitute issuance of guarantees to third parties.

(ii) At 31 December 2016, time deposits of RMB18,000,000 (31 December 2015: Nil) has been pledged for issuance of bills of the Group. The pledged time deposits are expected to be released within 3 months.

11. TRADE AND BILLS PAYABLES

	2016	2015
	RMB'000	*RMB'000*
Trade payables to third parties	**721**	–
Bills payable	**18,000**	–
	18,721	–

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

	2016	2015
	RMB'000	*RMB'000*
Due within 1 month or on demand	**721**	–
Due within 1 to 3 months	**18,000**	–
	18,721	–

All of the trade and bills payables at 31 December 2016 are expected to be settled within one year or are repayable on demand.

12. CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

	2016	2015
	RMB'000	*RMB'000*
Final dividend proposed after the end of the reporting period of HK$0.02 per ordinary share (2015: HK$Nil per ordinary share)	**17,890**	–

The directors resolved on 24 March 2017 that HK$20,000,000, equivalent to RMB17,890,000 is to be distributed to the equity shareholders of the Company, subject to the approval of the equity shareholders at the forthcoming annual general meeting. The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

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

(b) Share capital

	2016		2015	
	No. of shares	***RMB'000***	*No. of shares*	*RMB'000*
Ordinary shares, issued and fully paid:				
At 1 January and at 31 December	**1,000,000,000**	**7,921**	1,000,000,000	7,921

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 2016, the Group continued the business of processing, manufacturing and sale of its products – Processed Wood Panels and Processed Finger Joint Wood Panels (as defined below) (collectively referred to as "Processed Wood Products"). In addition, in the fourth quarter of 2016, it started to provide Wood Processing Procedure service (as defined below) to customers who carry out drying, shaving and cutting processes at their own facilities or elsewhere. The Group provides the service to customers for their poplar wood panels on a fee. As the impregnation fluid and Wood Processing Procedure of the Group contain its core technologies, the Group believe the launch of the service can bring under the spotlight its intrinsic value and exceptional expertise, and will yield a higher gross profit margin in the future than that of Processed Wood Products.

The Group uses a self–developed processing procedure ("Wood Processing Procedure") to process all its Processed Wood Products. In the process, the Group uses its self–developed impregnation fluid made with biological synthetic resin technologies on raw wood panels. This procedure is applied to poplars, a fast growing tree species that can withstand long, cold winters and short summers. They have a growth cycle of about seven to ten years, relatively shorter than typical tree species used by the construction industry and supply of poplars in the PRC is relatively abundant and stable. The Group's Wood Processing Procedure helps improve the poplar wood panels' hardness, shrinkage and swelling rate, density, deformation resistance, cracking resistance, anti–corrosiveness, bending strength and elasticity. The processed wood panels will also have stronger moisture and flame resistance and the natural wood grain and figure will also be preserved in the end–products. After the Group's Wood Processing Procedure, these poplar wood panels can be used as substitutes of natural solid wood panels, with wide application in furniture making and indoor furnishing.

Processed Wood Panels

The Group's principal products are Processed Wood Panels. They are made of poplar wood panels that went through the Group's Wood Processing Procedure and then shaved, sanded and trimmed into strips of wood panels according to the dimensions and other specifications of customers. 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 customers less–shaved Processed Wood Panels, which involve fewer production processes and lower wastage of production materials, and in turn allow the Group to utilise its production capacity more efficiently. Although the less–shaved Processed Wood Panels have a lower average selling price and gross profit margin compared with traditional Processed Wood Panels, the Directors believe that it is in the interest of the Group to shift its focus to less–shaved Processed Wood Panels for the reasons of: it is able to (i) enhance production efficiency; (ii) reduce the unit cost of sales; (iii) reduce inventory turnover days and increases sales volume, and (iv) improve price advantage over competing products.

Processed Finger Joint Wood Panels

Processed finger joint wood panels ("Processed Finger Joint Wood Panels") are another type of products of the Group. They are made from cut–offs and small pieces of wood produced during the trimming process of Processed Wood Panels. These cut–offs and small pieces are laminated, pressed and further processed to form Processed Finger Joint Wood Panels of standard size, and are generally used to produce wooden furniture, doors and window frames.

Rendering of Wood Processing Procedure service

In the fourth quarter of 2016, the Group started to provide the Wood Processing Procedure service to customers who carry out drying, shaving and cutting processed at their own facilities or elsewhere. The Group provides the service to customers for their raw wood panels on a fee. Since the impregnation fluid is self–developed and the production cycle of Wood Processing Procedure is short, the production cost is far lower than that of Processed Wood Products which allows the Group to yield a higher gross profit margin in the future than that of Processed Wood Products.

Sales and Marketing

For the year ended 31 December 2016, the Group continued to promote Processed Wood Products, in particular, the less–shaved Processed Wood Panels. Following the commercial production of the new factory in Huai'an (the "Huai'an Factory"), Jiangsu Province in June 2016, the Group's annual production capacity has increased to about 300,000 cubic meters, which allowed it to take more sales orders in 2016.

To widen its income source, the Group started providing Wood Processing Procedure service to customers who carry out drying, shaving and cutting at their own facilities or elsewhere. The revenue derived from provision of Wood Processing Procedure service made up about 12.8% of the total revenue of the Group for the year ended 31 December 2016.

Research and development

Apart from efforts on developing its business, the Group's success also hinges on its persistence in research and development of existing products and technologies. Therefore, the Group never stops in striving for breakthroughs in this aspect. During the year ended 31 December 2016, the Group's research and development team succeeded in modifying the formula of impregnation fluid to cut down production cost. The technological breakthrough brought the average unit cost of impregnation fluid down from about RMB1,889/ton for the year ended 31 December 2015 to about RMB1,667/ton for the year ended 31 December 2016. The Group's research and development team also continued to work hard on expanding the scope of application of impregnation fluid to include different species of poplars and enhancing various features of the wood panels such as water resistance, bending strength and elasticity, so that the Group will be able to offer higher quality and a greater variety of products. The Group filed for six new patents in relation to the improvement it managed with the Wood Processing Procedure during the year ended 31 December 2016, owed to extraordinary achievements of its research and development team.

Acquisition of a piece of land

Reference is made to an announcement of the Company dated 21 June 2016 (the "Announcement") in relation to the receipt of a confirmation dated 20 June 2016 issued by the Huai'an Land Resources Bureau about the acquisition of a piece of land in Huai'an (the "Adjacent Land") at a consideration of about RMB22.8 million. The Adjacent Land neighbors a piece of land acquired by the Group earlier in December 2015 (the "Original Land"). Both the Original Land and the Adjacent Land are on the west of Kunlun Road and south of Longteng Road (昆倫路西側，龍騰路南側) in the Huai'an Industrial Zone, Huai'an City, Jiangsu Province, the PRC. The aggregate site area of both lands is about 125,000 sq.m. and will be used by the Group to construct the Huai'an Production Plant to enhance production capacity of the Group's Processed Wood Products. Details are set out in the Announcement.

Transfer of listing to the Main Board

Reference is made to an announcement of the Company dated 2 September 2016 ("Transfer Listing Announcement") in relation to the transfer of listing of the Company from the GEM to the Main Board of the Stock Exchange. On 12 September 2016, the Company was listed on the Main Board of the Stock Exchange, which marked a new milestone in the Company's development.

USE OF PROCEEDS

The net proceeds from the placing of the Company's shares on the GEM on 6 January 2014 (the "Placing") were about HK$229.6 million. The use of the net proceeds from the GEM Listing Date to 31 December 2016 had been applied as follows:

	Planned use of net proceeds from Placing as shown in the Prospectus from the GEM Listing Date to 31 December 2015 *(Note 1)* *HK$ million (Approximate)*	Actual use of net proceeds from Placing from the GEM Listing Date to 31 December 2015 *HK$ million (Approximate)*	Utilised net proceeds from Placing for the year ended 31 December 2016 *HK$ million (Approximate)*	Utilised net proceeds from Placing as at 31 December 2016 *HK$ million (Approximate)*
1. Strengthen the Group's research and development capacities	23.0	23.0	–	–
2. Continue to expand the Group's sales network	20.8	13.2	3.5	4.1
3. Expansion of the Group's production capacity	84.4	82.9	1.5	–
4. Repayment of loans	68.2	68.2	–	–
5. General working capital and other general corporate purposes	33.2	33.2	–	–
Total:	229.6	220.5	5.0	4.1

Note:

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

As at 31 December 2016, the Group had an unutilised balance of net proceeds of approximately HK$4.1 million. The Group expects to apply such net proceeds on (i) the operational expenses to be incurred by the Group's sales department, (ii) participation in industry exhibitions and trade fairs and (iii) the set up of a sales office in Liaoning province, the PRC.

All the unutilised balances have been placed in licensed banks in Hong Kong and the PRC.

FINANCIAL REVIEW

Revenue

The Group recorded a decrease in its revenue by about RMB123.4 million or 20.2% from about RMB609.9 million in 2015 to about RMB486.5 million in 2016. The decrease in revenue was mainly attributable to the decrease in sales of Processed Wood Products since the Group commenced to provide Wood Processing Procedure service instead of selling the Processed Wood Products to certain customers who can carry out the processes of drying, shaving and cutting by themselves at a lower cost than us. Besides, the fee charged for rendering of the Wood Processing Procedure service is lower than the average selling price of Processed Wood Products. As a result, revenue derived from sale of Processed Wood Products decreased by RMB185.8 million or 30.5% from RMB609.9 million for the year ended 31 December 2015 to RMB424.1 million for the year ended 31 December 2016. The decrease in revenue derived from sale of Processed Wood Products was partially compensated by the increase in revenue derived from the processing fee charged for the provision of Wood Processing Procedure service which amounted to RMB62.4 million for the year ended 31 December 2016. Although the Group developed a new source of income in the fourth quarter of 2016, the core business of the Group continued to be the sale of Processed Wood Panels, in particular, the less–shaved Processed Wood Panels for the year ended 31 December 2016.

Although the Group recorded a decrease in revenue of Processed Wood Products, the average selling price of less–shaved Processed Wood Panels, traditional Processed Wood Panels and Processed Finger Joint Wood Panels increased from RMB3,386/m^3, RMB4,883/m^3 and RMB4,310/m^3 for the year ended 31 December 2015 to RMB3,477/m^3, RMB4,958/m^3 and RMB4,358/m^3 for the year ended 31 December 2016 respectively. The average processing fee charged by the Group for the provision of Wood Processing Procedure service amounted to about RMB1,085/m^3 for the year ended 31 December 2016.

REVENUE BY SEGMENT

Analysis of revenue by segment is as follows:

	Year ended 31 December					
	2016			2015		
	Volume (m^3)	***RMB'000***	***%***	*Volume (m^3)*	*RMB'000*	*%*
Processed Wood Panels:						
– less–shaved	**115,092**	**400,165**	**82.3**	163,354	553,100	90.7
– traditional	**2,879**	**14,273**	**2.9**	7,338	35,829	5.9
sub–total	**117,971**	**414,438**	**85.2**	170,692	588,929	96.6
Processed Finger Joint Wood Panels	**2,220**	**9,675**	**2.0**	4,861	20,951	3.4
Processed Wood Products	**120,191**	**424,113**	**87.2**	175,553	609,880	100.0
Rendering of Wood Processing Procedure service	**57,490**	**62,384**	**12.8**	–	–	–
		486,497	**100.0**		609,880	100.0

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

	2016	2015
	RMB	*RMB*
Processed Wood Panels	**3,513**	3,450
– less–shaved	**3,477**	3,386
– traditional	**4,958**	4,883
Processed Finger Joint Wood Panels	**4,358**	4,310
Overall average selling price of Processed Wood Products	**3,529**	3,474
Rendering of Wood Processing Procedure service	**1,085**	–

Processed Wood Panels

Revenue from sales of Processed Wood Panels decreased by about RMB174.5 million or 29.6% from about RMB588.9 million in 2015 to about RMB414.4 million in 2016. The decrease in sales of Processed Wood Panels was primarily due to the provision of Wood Processing Procedure service to some customers who can carry out the processes of drying, shaving and cutting by themselves at a lower cost than us in the fourth quarter of 2016. The Group only charged a processing fee on the processing service provided instead of selling the Processed Wood Panels to these customers. As a result, the Group recorded a decrease in revenue from sales of Processed Wood Panels. The sales volume of Processed Wood Panels also decreased by about 30.9% from about 170,692 m^3 for the year ended 31 December 2015 to about 117,971 m^3 for the year ended 31 December 2016.

Processed Finger Joint Wood Panels

Revenue from sales of Processed Finger Joint Wood Panels decreased substantially by about RMB11.3 million or 53.8% from RMB21.0 million in 2015 to RMB9.7 million in 2016. The decrease was mainly a result of the Group's intention to reduce the sales of the Group's Processed Finger Joint Wood Panels and the Group focused on the sales of less–shaved Processed Wood Panels, which requires lesser production process that allowed the Group to utilise its production capacity more efficiently. The sales volume of Processed Finger Joint Wood Panels also decreased by about 2,641 m^3 or 54.3% from about 4,861 m^3 for the year ended 31 December 2015 to about 2,220 m^3 for the year ended 31 December 2016.

Rendering of Wood Processing Procedure service

The Group considers that the impregnation fluid and the Wood Processing Procedure are its core technologies which are difficult to be replicated in a short time. Besides, the rendering of Wood Processing Procedure service can further reveal and enhance the Group's intrinsic value and earns a higher gross profit margin than that of Processed Wood Products. Therefore, the Group commenced to render Wood Processing Procedure service to some customers who can carry out the processes of drying, shaving and cutting by themselves at a lower cost than us in the fourth quarter of 2016. The raw wood panels are provided by these customers and the Group charged them an average processing fee of RMB1,085/m^3 for the year ended 31 December 2016. The revenue derived from the rendering of Wood Processing Procedure service amounted to RMB62.4 million, representing about 12.8% of total revenue of the Group for the year ended 31 December 2016.

Cost of Sales

Cost of sales of the Group decreased by about RMB114.6 million or 25.1%, from about RMB455.7 million in 2015 to about RMB341.1 million in 2016. The decrease was mainly a result of the decrease in the Group's total sales volume as discussed under the paragraph headed "Revenue" above. In addition, the rendering of Wood Processing Procedure service did not involve raw wood panel costs which also caused the decrease in cost of sales.

Gross Profit

Gross profit of the Group decreased by about 5.7% or RMB8.8 million from about RMB154.2 million in 2015 to about RMB145.4 million in 2016. The decrease in gross profit of the Group was mainly attributable to the decrease in sales volume of the Group's Processed Wood Products as a result of rendering of Wood Processing Procedure service in the fourth quarter of 2016 as discussed under the paragraph headed "Revenue" above.

GROSS PROFIT MARGIN BY SEGMENT

Analysis of gross profit margin by segment is as follows:

	Year ended 31 December	
	2016	2015
	%	%
Processed Wood Panels	**25.0**	25.5
–less–shaved	**24.7**	24.8
–traditional	**35.0**	35.9
Processed Finger Joint Wood Panels	**17.9**	19.8
Overall gross profit margin of Processed Wood Products	**24.9**	25.3
Rendering of Wood Processing Procedure service	**63.8**	–
Overall gross profit margin	**29.9**	25.3

Overall gross profit margin of the Group increased from about 25.3% in 2015 to about 29.9% in 2016. Such increase was mainly attributable to the Rendering of Wood Processing Procedure service which can earn a higher gross profit margin of about 63.8% than that of Processed Wood Products of about 25.3% in the fourth quarter of 2016. In addition, the Group recorded a slightly increase in the average selling price of the Group's Processed Wood Products from about RMB3,474/m^3 for the year ended 31 December 2015 to about RMB3,529/m^3 for the year ended 31 December 2016. The slightly increase in the average selling price of the Group's Processed Wood Products was mainly because of sales discount offered to the Group's customers in early 2015 but the Group did not offer sales discount during the year ended 31 December 2016. However, the overall gross profit margin of the Processed Wood Products slightly decreased from 25.3% for the year ended 31 December 2015 to 24.9% for the year ended 31 December 2016. Such decrease was mainly due to the decrease in production of Processed Wood Products which caused the increase in the unit fixed cost of the Group's Processed Wood Products. The unit cost of the Group's Processed Wood Products increased from RMB2,596/m^3 for the year ended 31 December 2015 to RMB2,651/m^3 for the year ended 31 December 2016. As a result of the factors mentioned above, the Group recorded an increase in its overall gross profit margin for the year ended 31 December 2016 as compared to 2015.

Processed Wood Panels

Gross profit margin of Processed Wood Panels decreased from about 25.5% for the year ended 31 December 2015 to about 25.0% for the year ended 31 December 2016. Such decrease was mainly attributable to the increase in the unit cost of the Group's Processed Wood Panels from about RMB2,571/m^3 for the year ended 31 December 2015 to about RMB2,633/m^3 for the year ended 31 December 2016 which was mainly brought by the decrease in sales volume of less–shaved Processed Wood Panels as some of the production costs are fixed costs and the decrease in production and sales volume of Processed Wood Panels will raise the unit cost of sales.

Processed Finger Joint Wood Panels

Gross profit margin of Processed Finger Joint Wood Panels also decreased from about 19.8% for the year ended 31 December 2015 to about 17.9% for the year ended 31 December 2016. The decrease was mainly because of the decrease in sales volume of Processed Finger Joint Wood Panels as some of the production costs are fixed costs and the decrease in production and sales volume of Processed Finger Joint Wood Panels will raise the unit cost of sales.

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

Rendering of Wood Processing Procedure service

In order to widen its source of income, the Group commenced to render wood processing service to some customers who can carry out the processes of drying, shaving and cutting by themselves at a lower cost than us in the fourth quarter of 2016. These customers provided their raw wood panels to the Group and the Group charged them a processing fee after the wood panels had been undergone the Wood Processing Procedure. Since the impregnation fluid is self–developed and the production cycle of Wood Processing Procedure is short, the production cost is far lower than that of Processed Wood Products which allows the Group to earn a high gross profit margin of about 63.8% for the year ended 31 December 2016.

Other Income

Other income mainly comprises rental income, income from government grants and interest income. The Group's other income increased by about RMB1.8 million from about RMB4.8 million for the year ended 31 December 2015 to about RMB6.6 million for the year ended 31 December 2016. The increase was mainly due to the increase in time deposits interest income by about RMB0.4 million for the year ended 31 December 2016 as compared to 2015. Besides, the subsidiary of the Group established in Jiangsu Province received government grants of about RMB31.7 million from the local government authority for the establishment and operation of the Group's factory located in Huai'an during the year ended 31 December 2016. The government grants received by the Group will be amortised over the expected useful life of the relevant assets. As a result, the Group recorded an increase in government grants of about RMB1.5 million for the year ended 31 December 2016 as compared to last year. The increase in other income was partially offset by the decrease in rental income of about RMB0.5 million for the year ended 31 December 2016 since there was only one tenant entered into the lease agreement with the Group in 2016 but the Group leased its investment properties to two tenants in 2015.

Selling Expenses

The Group's selling expenses decreased by about 65.2% or RMB5.8 million from about RMB8.9 million for the year ended 31 December 2015 to about RMB3.1 million for the year ended 31 December 2016. Such decrease was principally due to the decrease in rental expenses of the sales offices by about RMB2.0 million as the Group had closed its sales offices in Shanghai and Beijing during the year ended 31 December 2016 since the Group considered that the sales offices established in the first–tier city in the PRC were not cost effective. Besides, the marketing and promotion expenses also decreased by about RMB2.5 million or 86.2% from about RMB2.9 million for the year ended 31 December 2015 to about RMB0.4 million for the year ended 31 December 2016 due to the change of marketing strategy.

Administrative Expenses

The Group's administrative expenses amounted to RMB50.3 million and RMB50.4 million for the year ended 31 December 2015 and 2016 respectively. The administrative expenses mainly included staff costs, professional fees, depreciation and amortisation charges and research and development expenses. The staff costs increased by RMB1.5 million from RMB8.3 million for the year ended 31 December 2015 to RMB9.8 million for the year ended 31 December 2016. Such increase was mainly brought by the increase in number of administrative staff employed for the Huai'an Factory. The professional fees increased by RMB4.4 million from RMB6.0 million for the year ended 31 December 2015 to RMB10.4 million for the year ended 31 December 2016. The increase in professional fees was mainly in relation to the preparation for the transfer of listing of the Company's Shares from the GEM to the Main Board of the Stock Exchange on 12 September 2016. The depreciation and amortisation charges increased by RMB2.2 million from RMB2.0 million for the year ended 31 December 2015 to RMB4.2 million for the year ended 31 December 2016 which was mainly due to the full operation of the Huai'an Factory in 2016. In addition, the increase in staff costs, professional fees and depreciation and amortisation charges were offset by the decrease in research and development expenses by 7.0 million from RMB21.0 million for the year ended 31 December 2015 to RMB14.0 million for the year ended 31 December 2016 since the research projects conducted in 2016 consumed lesser wood materials and impregnation fluids than that in 2015.

Finance Costs

The Group's finance costs increased by about 7.7% or RMB0.6 million from about RMB7.8 million for the year ended 31 December 2015 to about RMB8.4 million for the year ended 31 December 2016. The increase was mainly attributable to the increase in interest expenses of about RMB2.7 million on finance lease entered into with a financial leasing institution for the acquisition of certain production machineries used by the Huai'an Factory in the fourth quarter of 2015. In addition, the Group recorded a decrease in exchange loss by RMB2.8 million for the year ended 31 December 2016 as compared to last year since the Company's subsidiary established in Hong Kong substantially reduced its Renminbi bank balance during the year ended 31 December 2016.

Income Tax Expenses

The Group's income tax expenses substantially increased from about RMB16.9 million for the year ended 31 December 2015 to about RMB19.9 million for the year ended 31 December 2016. The subsidiary located in Huai'an, Jiangsu Province is subject to PRC Corporate Income Tax rate of 25% while the subsidiary located in Handan, Hebei Province continues to enjoy the preferential PRC Corporate Income Tax rate of 15%. Therefore, profit derived from the subsidiary located in Huai'an has to pay a higher income tax rate which resulted in the increase in income tax expenses. In addition, the income tax of RMB1.5 million withheld by a subsidiary of the Group established in the PRC for a dividend of RMB30.0 million to be declared to its immediate holding company also caused the increase in income tax expenses of the Group for the year ended 31 December 2016.

Profit for the Year

As a combined result of the factors discussed above, the Group's profit for the year decreased from about RMB75.1 million for the year ended 31 December 2015 to about RMB70.2 million for the year ended 31 December 2016. However, the Group's net profit margin increased from about 12.3% for the year ended 31 December 2015 to about 14.4% for the year ended 31 December 2016. Such increase was mainly due to the increase in the Group's gross profit margin and the decrease in selling expenses which were partially offset by the increase in the finance costs and income tax expenses for the year ended 31 December 2016.

LIQUIDITY AND FINANCIAL RESOURCES AND TREASURY POLICY

	As at 31 December	
	2016	2015
Current ratio	**5.27**	2.88
Gearing ratio*	**0.23**	0.25

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

The current ratio of the Group as at 31 December 2016 was 5.27 times as compared to that of 2.88 times as at 31 December 2015. The increase in current ratio was mainly due to the increase in inventories and prepayments, deposits and other receivables due to the Group's business expansion. The Group's gearing ratio as at 31 December 2016 was about 0.23 as compared to that of 0.25 as at 31 December 2015. Such decrease was primarily due to the increase in our accumulated profit for the year ended 31 December 2016.

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

The Group mainly finances its capital expenditure and operational requirements through internally generated cash flows, net proceeds from the placing (the "Placing") of the Company's shares upon listing of the Company's shares on the GEM on 6 January 2014, cash reserve, bank loans and other borrowings and finance lease.

CAPITAL COMMITMENTS

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

PLEDGE OF ASSETS

At 31 December 2016, time deposits of RMB18.0 million (31 December 2015: RMBNil) had been pledged for issuance of bills of the Group. The pledged time deposits are expected to be released within 3 months.

At 31 December 2016, time deposit of RMB16.0 million (31 December 2015: RMB20.0 million) has been pledged for a bank loan of a third party customer of the Group amounting to RMB15.0 million (31 December 2015: RMB18.0 million). This bank loan will be expired in April 2017.

At 31 December 2016, time deposit of RMB16.0 million (31 December 2015: RMB22.3 million) has been pledged for a bank loan of a third party supplier of the Group amounting to RMB15.0 million (31 December 2015: RMB20.0 million). This bank loan was expired and repaid by the borrower in March 2017 and as a result the pledge has been released at the same time.

At 31 December 2016, the Group's property, plant and equipment, investment properties and land use right with a carrying amount of about RMB61.4 million (31 December 2015: RMB45.9 million) were pledged to banks for bank borrowings.

At 31 December 2016, the Group's property, plant and equipment with a carrying amount of about RMB28.6 million (31 December 2015: RMB33.2 million) has been pledged to a financial leasing institution for the long–term other loan.

In November 2015, the Group entered into a finance lease arrangement with a financial leasing institution. The lease term is from November 2015 to November 2018. In April 2016, the Group entered into a supplementary agreement with this institution and reduced the amount of assets held under finance lease and the obligations under finance lease. At 31 December 2016, the net book value of machinery and equipment held under finance lease is RMB17.2 million (31 December 2015: RMB26.6 million).

CONTINGENT LIABILITY

As at 31 December 2016, the Group provided guarantees for the facilities given by a bank to a customer and a supplier of the Group, both independent third parties of the Company, for a total amount of RMB32.0 million (2015: RMB42.3 million). The banking facilities utilised by the relevant customer and supplier amounted to RMB30.0 million (2015: RMB38.0 million).

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

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

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

MATERIAL ACQUISITIONS OR DISPOSALS

The Group had no material acquisitions or disposals of subsidiaries and affiliated companies in 2016.

CAPITAL STRUCTURE

There has been no change in the capital structure of the Company for the year ended 31 December 2016. The capital of the Company only comprises of ordinary shares.

As at 31 December 2016, all the bank loans of the Group are denominated in RMB and are subject to fixed interest rate.

SIGNIFICANT INVESTMENTS

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

FOREIGN CURRENCY EXPOSURE

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

EMPLOYEES AND EMOLUMENT POLICY

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

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

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

As at 31 December 2016, the Group employed 380 employees, the total staff costs amounted to RMB28.1 million (2015: RMB22.6 million). The Company maintains a share option scheme ("Share Option Scheme") for the purpose of providing incentives and rewards to the participants for their contributions to the Group. As at the date of this announcement, no option has been granted under the Share Option Scheme.

OUTLOOK

The Group will continue to promote market recognition of its Processed Wood Panels, in particular, the less–shaved Processed Wood Panels, and provide Wood Processing Procedure service to its customers in the PRC. To those ends, the Group will continue to expand the application spectrum and improve the quality of its Processed Wood Panels and also hire more research and development specialists to strengthen its expertise and know–know for developing its impregnation fluids and Wood Processing Procedure.

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

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

CORPORATE GOVERNANCE PRACTICES

The Board is of the view that the Company has complied with all applicable code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules during the year ended 31 December 2016.

Further information on the Company's corporate governance practices will be set out in the Corporate Governance Report contained in the Company's annual report for the year ended 31 December 2016, which will be sent to the shareholders in due course.

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

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct governing dealings by all Directors in the securities of the Company on terms no less exacting than the required standard of dealings as set out in Listing Rules. Specific enquiries have been made with all Directors, who have confirmed that, for the year ended 31 December 2016, they were in compliance with the required provisions set out in the Model Code. All Directors declared that they have complied with the required standard of dealings as set out in the Model Code throughout the period for the year ended 31 December 2016.

DIVIDENDS

The Directors recommends the payment of a final dividend of HK$0.02 per share for the year ended 31 December 2016 (2015: Nil) to be payable to the shareholders of the Company whose names appear on the register of members of the Company as at 26 May 2017, subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company to be held on Wednesday, 17 May 2017. The final dividend will be payable on or around Wednesday, 31 May 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 10 May 2017 to Wednesday, 17 May 2017 (both days inclusive), during which period no transfer of the shares will be effected. The holders of shares whose names appear on the register of members of the Company on 17 May 2017 will be entitled to attend and vote at the annual general meeting of the Company. In order to qualify for attending and voting at the annual general meeting of the Company or any adjournment thereof, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited, at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong by no later than 4:00 p.m. on Tuesday, 9 May 2017.

The register of members of the Company will be closed from Wednesday, 24 May 2017 to Friday, 26 May 2017 (both days inclusive), during which period no share transfer will be registered. In order to qualify for the proposed final dividend, all completed transfer documents, accompanied by relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited, at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. on Tuesday, 23 May 2017.

DIRECTORS' INTERESTS IN CONTRACTS

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

AUDIT COMMITTEE

The Company has established its audit committee on 20 December 2013 with terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process, risk management and internal control systems of the Group. The audit committee has three members comprising the Company's three independent non–executive Directors, namely Mr. Lau Ying Kit, Mr. Pu Junwen and Mr. Zhang Dali. The chairman of the audit committee is Mr. Lau Ying Kit. The audit committee of the Board has reviewed the consolidated results of the Group for the year ended 31 December 2016.

AUDITOR

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditors, KPMG, to the amounts set out in the Group's consolidated financial statements for the year.

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

Hong Kong, 24 March 2017

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