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

ANNUAL REPORT 2016

Contents

Corporate Information

BOARD OF DIRECTORS

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

Independent non-executive Directors
Mr. Zhang Dali
Mr. Pu Junwen
Mr. Lau Ying Kit

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

Ms. Yim Tsun
Ms. Ho Wing Yan

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

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

LEGAL ADVISERS AS TO HONG KONG LAW

Chiu & Partners

COMPLIANCE ADVISER

Guotai Junan Capital Limited

AUDITORS

KPMG

SHARE REGISTRARS

Cayman Islands Share Registrar and Transfer Office
Estera Trust (Cayman) Ltd.
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office
Union Registrars Limited
Suites 3301-04,
33/F., Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

STOCK CODE

1885

COMPANY'S WEBSITE

http://www.chinawood.com.hk

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

The Group commenced its production and sale of its Processed Wood Panels and Processed Finger Joint Wood Panels in 2010 and 2011, respectively. In July 2016, the Group was accredited with ISO9001:2015 and ISO14001:2015. The Group commenced to render the wood processing procedure service to its customers in October 2016.

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

Financial Highlights

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

	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**486,497**	609,880	512,736	481,285	270,521
Gross profit	**145,369**	154,155	134,791	141,020	90,868
Gross profit margin (%)	**29.9**	25.3	26.3	29.3	33.6
Profit attributable to equity shareholders of the Company	**70,193**	75,113	63,728	53,129	39,195

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total non-current assets	**388,213**	379,673	209,204	226,561	223,449
Total current assets	**363,356**	280,746	312,138	183,970	130,560
Total current liabilities	**(68,959)**	(97,568)	(67,921)	(181,219)	(291,373)
Net current assets/(liabilities)	**294,397**	183,178	244,217	2,751	(160,813)
Non-current liabilities	**(84,878)**	(35,448)	(4,700)	(28,000)	–
Equity attributable to equity shareholders of the Company	**597,732**	527,403	448,721	201,312	62,636

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

To all shareholders,

I am pleased to present the annual report of the Group for the financial year ended 31 December 2016 on behalf of the board of directors of the Group.

OVERVIEW

Looking back to last year, the global financial markets were volatile. The world economy growth was recovering in a slow pace and is uneven. The Chinese economy growth was also slowing down. Under these circumstances, energy saving and emission reduction industry is affected to a certain extent. However, with the joint efforts of all employees, the Group managed to maintain a stable profit. In addition, the listing of the Group successfully transferred from the GEM to the Main Board of the Hong Kong Stock Exchange on 12 September 2016. It is not only the milestone of the Group's development, but also marks our entry to the new era of leading the industry and hence builds merits in the process of the internationalization.

BUSINESS AND OPERATION REVIEW

In the past year, the Group continued to actively promote innovation of efficient utilization of timber plantations. Following the commencement of operation of the Group's second production base located in Huai'an City, Jiangsu Province in June 2016, the Group's annual production capacity has increased to 300,000 cubic meters, which helped to boost the production and sales of Processed Wood Products.

In order to widen the income source of the Group and efficiently excavate the intrinsic potential as well as deploy our technical features, apart from development of Processed Wood Products business, the Group also started to provide some customers with wood processing procedure service featuring the core technology and expertise of the Group in the fourth quarter of the last year. We are in the opinion that the service can facilitate the Processed Wood Products to enter the market in a faster pace and on a more extensive scale.

As an advanced and new technology enterprise, the Group is committed to continuously optimize product quality and at the same time, refine impregnation fluid and production technology. In the past year, with persistent efforts of research and development department, the production cost of impregnation fluid was reduced by 12%. There are 6 patents that are under application. In the future, the Group will continue to enhance the research and development of products and impregnation fluid and improve the efficiency of existing production technology, with the aim of further strengthening the Processed Wood Products technology of the Group and its market leadership.

As a listing enterprise with the longest development history and the largest development scale in the wood optimization industry, the Group is not only developing its own Processed Wood Products business, but also actively support and participate in activities related to technological research in the wood industry. In June 2016, the Group co-organized the "National Timber Plantations Improvement, Optimization and Application Forum and New Technology Seminar" with Research Institute of Wood Industry, Chinese Academy of Forestry to discuss the technical progress of timber plantations improvement, optimization and application and the prospect in the future development with the participants. The Group would like to cooperate with the industry for the value enhancement of timber plantations, reduce the dependence on traditional natural forest and promote "Green, Low Carbon, Energy Saving and Environmental Protection" living environment. The Group was granted "Excellent Member Units of the Year 2016" in December 2016, in recognition of its achievement and contribution of new green wood field and its outstanding performance in the activities carried out by China Wood Protection Industry Association. This title represented that the industry fully affirmed the efforts made by the Group for promoting the efficient utilization of timber plantations in China.

PROSPECTS

Looking ahead, we will continue to strive for excellence based on the achievements we made at this stage. While exploring new business development opportunities, we also target on enhancing the Group's income and market share. In order to cope with the market demand for impregnation fluid, the Group is actively looking for suitable places and hopes to build its own production base for impregnation fluid in the future. In addition, the Group values technology innovation. Apart from patents granted and under application, the Group will continue to enhance its research and development, improving the features of impregnation fluid and enhancing production technology efficiency, so as to further outperform our potential competitors and strengthen the Group's leadership in the Processed Wood market.

APPRECIATION

I would like to express my gratitude to the management team and all the passionate staff of the Group for their efforts and contributions in the implementation of the Group's development strategy and business operation over the past year. Also, I would like to thank our loyal new and old customers and business partners as well as all shareholders for their support and trust. The Group's vision is to promote the public to consciously protect the natural and ecological environment, reduce deforestation and cherish the fascinating primary forest. I believe that through our joint efforts, this beautiful vision will be gradually realized.

Yim Tsun
Chairlady of the Board

24 March 2017

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 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 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 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)*	Actual use of net proceeds from Placing from the GEM Listing Date to 31 December 2015	Utilised net proceeds from Placing for the year ended 31 December 2016	Unutilised net proceeds from Placing as at 31 December 2016
	HK$ million	HK$ million	HK$ million	HK$ million
	(Approximate)	(Approximate)	(Approximate)	(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: 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 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 rendering 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 rendering 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 **RMB**	2015 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 rendering of Wood Processing Procedure service to some customers who can carry out the processes of 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 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% in the fourth quarter of 2016 than that of Processed Wood Products of about 25.3% in 2015. 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 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, located at Group's production plant which situated at Wei Country, Handen City, Hebei Province, 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, research and development expenses and other taxes. 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, Placing, cash reserve, bank loans and other borrowings and finance lease. For detailed analysis of the Group's bank and other loans and obligations under finance lease, please refer to note 23 and note 24 to the financial statements, respectively.

CAPITAL COMMITMENTS

The Group has no capital commitments 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) has 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 facility, 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 facility 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 facility, the Group decided to provide assistance to this supplier by providing guarantee for the facility given by the bank to that supplier. As at the date of this report, the facility has been repaid and the guarantee to this supplier has been released.

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

MATERIAL ACQUISITIONS OR DISPOSALS

The Group had no material acquisitions or disposals of subsidiaries and affiliated companies in 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 and other 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 report, 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.

DIRECTORS

Executive Directors

Ms. Yim Tsun (閻峻), aged 45, 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.

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.

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. Zhang rejoined Pöyry Management Consulting in April 2014, as director and head of China Operation.

** The English name is for identification purpose only*

Mr. Pu Junwen (蒲俊文), aged 52, 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 43, 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.

CORPORATE GOVERNANCE PRACTICES

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

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

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

The Company has adopted the Model Code set out in Appendix 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.

THE BOARD OF DIRECTORS AND DIRECTORS' ATTENDANCE AT BOARD MEETINGS

The Board currently consisted of five Directors, comprising two executive Directors and three independent non-executive Directors. During the year ended 31 December 2016, five Board meetings were held. Details of the attendance of the Directors are as follows:

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

During the year ended 31 December 2016, the Company held one Annual General Meeting on 11 May 2016, being 2015 annual general meeting of the Company (the "2015 AGM").

2015 AGM	Number of Attendance
Executive Directors	
Ms. Yim Tsun *(Chairlady)*	1/1
Mr. Li Li *(Chief Executive Officer)*	1/1
Independent Non-Executive Directors	
Mr. Zhang Dali	1/1
Mr. Pu Junwen	1/1
Mr. Lau Ying Kit	1/1

RESPONSIBILITY OF THE BOARD

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

CORPORATE GOVERNANCE FUNCTIONS

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

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

DIRECTORS' TRAINING

According to the code provision A.6.5 of the CG Code, all Directors should participate in a programme of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, functions and duties of the Directors. During the year ended 31 December 2016, the Company had arranged to provide trainings to all the Directors.

For the year ended 31 December 2016, the Directors participated in the following continuous professional development:

Name of Directors	Training organized by professional organization[1]	Reading materials updating on new rules and regulations
Executive Directors		
Ms. Yim Tsun	✓	✓
Mr. Li Li	✓	✓
Independent Non-executive Directors		
Mr. Zhang Dali	✓	✓
Mr. Pu Junwen	✓	✓
Mr. Lau Ying Kit	✓	✓

Notes:

1. Professional training namely "Connected transactions and the updates" and "Internal control system & the consultation updates" were arranged by the Company to update the Directors' knowledge.

2. The Company received from each of the Directors the confirmations on taking continuous professional training.

CHAIRLADY AND CHIEF EXECUTIVE OFFICER

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

During the year ended 31 December 2016, the roles of the chairlady and the chief executive officer are separate. Ms. Yim Tsun was the chairlady while the role of the chief executive officer was performed by Mr. Li Li.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Terms of Appointment of Independent Non-executive Directors

Each of the independent non-executive Directors has entered into an appointment letter with the Company for a term of three years commencing from 6 January 2017 to 5 January 2020, and will continue thereafter until terminated by either party giving not less than three months' prior notice in writing.

Independent Non-Executive Directors

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

In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors representing more than one-third of the Board.

Among the three independent non-executive Directors, Mr. Lau Ying Kit has appropriate professional accounting qualifications and financial management expertise in compliance with the requirements set out in Rule 3.10(2) of the Listing Rules.

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all the independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

BOARD COMMITTEES

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

Audit Committee

The Company has established its audit committee on 20 December 2013 with terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting system, risk management and internal control systems of the Group. The audit committee has three members comprising the Company's three independent non-executive Directors, namely Mr. Lau Ying Kit, Mr. Pu Junwen and Mr. Zhang Dali. The chairman of the audit committee is Mr. Lau Ying Kit.

During the year ended 31 December 2016, three audit committee meetings were held to review and discuss with the external auditors and the management of the Company the accounting principles and practices adopted by the Group, the draft financial statements for the year ended 31 December 2016 as well as risk management, internal controls and other financial reporting matters. The attendance records of individual committee members are set out below:

	Number of Meetings Attended/Held
Mr. Lau Ying Kit *(Chairman)*	3/3
Mr. Zhang Dali	3/3
Mr. Pu Junwen	3/3

Remuneration Committee

The Company established a remuneration committee on 20 December 2013 with terms of references in compliance with the CG Code as set out in Appendix 14 of the Listing Rules. The remuneration committee comprises one executive Director, namely Mr. Li Li and two independent non-executive Directors, namely Mr. Pu Junwen and Mr. Zhang Dali. The primary duties of the remuneration committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management. The chairman of the remuneration committee is Mr. Pu Junwen.

During the year ended 31 December 2016, one meeting of the remuneration committee was held to, amongst others, review and approve the remuneration packages of the Directors and senior management of the Company. The attendance records of individual committee members are as follows:

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

Nomination Committee

The Company established a nomination committee on 20 December 2013 with terms of references in compliance with the CG Code as set out in Appendix 14 of the Listing Rules. The nomination committee comprises one executive Director, namely Mr. Li Li and two independent non-executive Directors, namely Mr. Zhang Dali and Mr. Pu Junwen. The primary duties of the nomination committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board. The chairman of the nomination committee is Mr. Zhang Dali.

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

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

During the year ended 31 December 2016, one meeting of the nomination committee was held. The attendance records of individual committee members are as follows:

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

Directors' and Auditors' Responsibility for the Consolidated Financial Statements

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

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

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

AUDITORS' REMUNERATION

The remuneration paid/payable to the Company's external auditors, KPMG, for the year ended 31 December 2016, is set out as follows:

Nature of Services	Fee paid/ payable RMB'000
Annual audit service	2,800
Other services	300
	3,100

The fee charged by KPMG in respect of annual audit service and other services for the year ended 31 December 2016 amounted to RMB3.1 million.

COMPANY SECRETARY

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

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

Ms. Ho is an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms. Ho continues to study professional course of corporate governance and has extensive experience in the company secretarial field for listed companies. Ms. Ho is also a holder of the Practitioner's Endorsement issued by The Hong Kong Institute of Chartered Secretaries. According to Rule 3.29 of the Listing Rules, Ms. Ho took more than 15 hours of relevant professional training for the year ended 31 December 2016.

SHAREHOLDERS' RIGHTS

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

To convene an EGM

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

Procedures by which enquiries may be put to the Board

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

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

Procedures for putting forward proposals at general meeting

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

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

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

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

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

Communication with Shareholders

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

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

INVESTOR RELATIONS

In 2016, certain amendments were made to the articles of association of the Company and a new set of memorandum and articles of association was adopted for the purpose of conforming to the latest Listing Rules. These amendments were duly passed by the shareholders of the Company at the annual general meeting held on 11 May 2016. For details of the amendments to the articles of association of the Company, please refer to the announcement and circular of the Company dated 24 March 2016.

Save as disclosed above, there was no change in the memorandum and articles of association of the Company during the year 31 December 2016.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

ABOUT THIS REPORT

China Wood Optimization (Holding) Limited ("China Wood" or the "Company") was incorporated in the Cayman Islands on 6 June 2012 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company and its subsidiaries (collectively known as the "Group" or "we") are principally engaged in processing, manufacturing and sale of Processed Wood Products and rendering of wood processing procedure service in Mainland China. The shares of the Company were listed on the Gem Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 6 January 2014 and transfer to Main Board on 12 September 2016.

This is our first Environmental, Social and Governance Report (the "ESG Report") to disclose relevant information which may cause material impact to the environment, social and governance for the year ended 31 December 2016 (the "Reporting Period"). Unless otherwise stated, this Report covers the sustainability performance and initiatives of our Hong Kong office and our business in Mainland China. The content are in compliance with the applicable disclosure requirements of the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Group is committed to promoting sustainable development, which is extremely important to create long-term value for the Group's shareholders, clients, employees, other stakeholders, as well as general public. The Group cares about the impact of its daily operation on environment and society, strives to set a good example for the public, while conducting business operation, it makes effort to meet the interests of all stakeholders, economy, environment, society and corporate governance and does its best to achieve a fine balance.

ENVIRONMENT

A1. Policy on emission of exhaust gas and greenhouse gas, discharging pollution through water and land, producing hazardous and non-hazardous wastes

Protecting environment is one of our key concerns; we are committed to protecting environment and focusing on environmental protection in our operation, hoping that through rigorous supervision and control to reduce our long-term negative impact on environment.

1. Energy Management

The indirect greenhouse gas emission, which generated from our daily electricity power consumption, is the main source of the Group's carbon footprint, we will keep monitoring and disclosing the Group's carbon footprint to find out and control the impact of our daily operation on environment. At the same time, we will implement the following energy-saving and energy efficiency measures at various office locations to reduce greenhouse gas emission:

a. Install high-performance electrical equipments

b. Purchasing department is required to purchase energy-efficient products

c. Employ automatic lighting control system

d. Deploy LED lighting on office floors

e. The employees must turn off lightand unnecessary energy device to reduce energy consumption and avoid unnecessary waste of energy

f. Deploy natural light as much as possible on office floors

g. Install auxiliary electricity meter to monitor electricity consumption

h. Other energy-saving and energy efficiency measures

2. *Waste Management*

In order to lighten the load of landfills, we adopt a responsible waste management policy, including waste avoidance, reducing waste from its source and reuse, recycling and responsible disposal of waste. Our offices post memos and notices everywhere, encouraging the employees to reduce the production of waste. We have introduced waste separation measures from the start:

a. Waste paper (excluding paper cup, paper plate, etc.)

b. Metal (such as aluminumcan and other metal cans, etc.)

c. Plastics (such as plastic bottle, container and packaging materials, etc.)

d. Other recyclables (such as old cloth, electrical appliance, computer, magazine, etc.)

A2. Policy on effective use of resources (including energy, water and other raw materials)

1. *Reducing electricity consumption*

Comply with the Group's policy on emission of exhaust gas and greenhouse gas, discharging pollution through water and land, producing hazardous and non-hazardous wastes to reduce electricity consumption.

2. *Paper reduction*

In order to reduce waste paper, we have developed the following measures:

a. Deploy recycling bins to collect used paper products such as waste paper, poster, letter and envelope;

b. Place waste paper recycling bin next to printer and set aside the papers that already printed once so that you can choose whether reuse it or put it into the bin;

c. Saving paper by double-sided printing

d. Writing on both sides of papers

e. Bring your own cup and avoid using paper cup

f. Reuse stationeries such as file folder and envelope

g. Reuse packaging box

h. Other than the waste paper that contains confidential information, waste paper should be shipped to paper mill or scrap paper company so as to be recycled into new paper.

3. Water conservation

In Hong Kong and in Mainland China, fresh water is a precious resource, we should economize water, try to protect water resource, and for which we have developed the following measures:

a. Repair dripping faucet or hose in a timely manner

b. Adopt effective water-saving production methods and instruments

c. Check water consumption regularly

d. Minimize water pressure

4. Green procurement

Green procurement is based on reducing environmental load. Quality, cost, delivery time are the main focuses when the Company procures goods or chooses supplier, but other than that, we give priority to environmentally friendly and energy-saving products.

a. Give priority to energy-efficient products at the highest level

b. Give priority to effective water-saving products

c. We require the suppliers to reduce packaging material

d. Send the message to suppliers that we value environmental protection and energy saving

A3. Policy on mitigating the Group's significant impact on environment and natural resources

The Group manages and minimizes the impact it may cause environment, directly or indirectly, through the following methods:

1. Make sure its business operation comply with the environmental law in Hong Kong and its operating locations

2. Establish and improve environmental protection mechanism to ensure its operation does not pollute water and land

3. Monitor gas emission and use of resource, establish emission reduction target

4. Make sure that in our daily business operation, with all efforts, we conserve energy, water and other raw materials to reduce direct impact on environment

5. Whenever the Company holds banquet, shark fin is out of question and sustainable seafood should be served. Order reasonable quantity in order to reduce waste

6. Urge the employees to reduce paper usage and adopt other energy-saving measures

7. Cooperate with government agencies and support environmental organizations' activities

SOCIETY

Employment and Labor convention

Employee is an important asset of the Company, we care about their well-being, respect their personal traits, make sure that all employees are subject to legislative protection and have equal opportunity in their career path, also, we strive to increase their sense of belonging.

B1. Policy on salary and dismissal, recruitment and promotion, working hours, day off, equal opportunity, diversity, anti-discrimination and other benefits

1. Salary

We offer competitive pay and benefits to the employees according to their job requirement and individual performance. We will annually review the overall salary and benefits to ensure the Company's competitiveness in local market, we even refer to the relevant industries and similar organizations. Each year, KPIs will provide direction and guidance to the employees' individual work plan. We also assess the achievements and contributions of the employees to appraise and reward them.

2. Dismissal

We ensure that all employees under the employment protection laws of Hong Kong or operating region, including:

a. Whenever an employee offers to resign or being laid off, human resource should interview him or her before quitting to find out the reason of quitting;

b. It is required to issue employment verification document to the dismissed employee;

c. When the employer terminates employment contract, the dismissed employee shall be given due notice or wages in lieu of notice, and the notice should not be given during his or her annual leave and maternity leave;

d. An employee cannot be dismissed when she has been confirmed pregnant or given notice of pregnancy;

e. An employee cannot be dismissed when he or she takes a paid sick leave;

f. An employee cannot be dismissed due to he or she gives evidence or information in any legal proceeding relating to enforcement of labor laws, industrial accident or breach of work safety regulation;

g. An employee cannot be dismissed due to he or she joins in labor union or participates in labor union activities; and

h. If an employee is injured on duty, if a compensation agreement has not yet been reached or the relevant evaluation certificate has not yet been issued, the employee cannot be dismissed.

3. Recruitment and promotion

In the Company, recruitment and promotion should be fair and open for all employees, and cannot be affected by age, sex, physical or mental health status, marital status, family status, race, skin colour, nationality, religion, political affiliation and sexual orientation and other factors, the employees will be recognised and rewarded by their contribution, work performance and skills, the Company will do its best to provide them with good working environment and development opportunity.

4. Working hours and day-off

The employees shall enjoy deserved days-off under the laws of Hong Kong or the location they work at. The employees of the Group are entitled to enjoy the following days-off:

a. Each employee can take statutory rest days in every week;

b. Statutory holidays;

c. Paid annual leave prescribed by employment contract;

d. Sick leave;

e. Marriage leave;

f. Materity leave;

g. Patermity leave;

5. Policy on equal opportunity, diversity, anti-discrimination and other benefits

Sex Discrimination Ordinance, Disability Discrimination Ordinance, Family Status Discrimination Ordinance must be complied with, equal opportunity must be provided on recruitment, training, promotion, transfer, remuneration, benefits and termination of contract. Such opportunities shall not be affected by factors such as age, gender, physical or mental health status, marital status, family status, race, skin colour, nationality, religion, political affiliation and sexual orientation.

B2. Policy on safe working environment and safeguarding the employees from occupational hazards

We are committed to protecting the health and safety of the employees and the community, we require all employees to comply with all relevant occupational health and safety regulations, and do our utmost to provide them with safe and healthy working environment, we have implemented the following methods:

1. Develop internal guidelines to ensure that office and factories are in line with or higher than the requirements of relevant laws;

2. Establish safety procedures for the recognised dangerous work;

3. Provide necessary protective equipment and medical insurance to the employees;

4. Check regularly machinery and equipment, in order to ensure the office and working environment is healthy and safe;

5. Establish emergency measures in case of fire or explosion;

6. Regularly arrange rescue, fire and evacuation drills;

7. Establish mechanism to record industrial injury and analyse the cause;

8. Provide and maintain an environmental, healthy and safe working condition;

9. Drinking is not allowed during working hours unless prior approval;

10. Actively promote environmental protection, health and safety awareness of the employees, and support development of environmental protection, health and safety in the industry;

11. Provide all employees with needed job information, guidance, training and supervision; and

12. Provide smoke-free working environment.

B3. Policy on improving the employees' knowledge and skills to perform their responsibilities

Talent development is an important part of our human resource strategy. We understand that the employees' knowledge and skills are essential to the Company's operation and business growth, good development plan lays a good foundation for the employees to face business challenge in the future, it also helps them to grasp promotion opportunities, fulfill their career aspirations. We provide the employees with effective training and develop a clear promotion ladder, ensuring that the employees have the required skills; we also nurture outstanding successors for the Group's and breed good learning atmosphere. The Group conducts performance evaluation annually, and based on the assessment result to provide the staff with appropriate training, and offer job, development and promotion opportunities for outstanding employees. Under the Group's Human Resource Management System requirements, HR manager is responsible for carrying out related assessment and training.

B4. Policy on preventing child labor or forced labor

The Group firmly adopts a "zero-tolerance" policy on child labor and forced labor, such conduct is prohibited by international standard and domestic legislation in the operating region and shall never be tolerated in here. In any part of the business process (including our subcontractors or suppliers), child labor or forced labor is not allowed, we see child labor or forced labor as a serious crime. The following is the policy on preventing child labor or forced labor:

1. Child labor refers to employment of people under 16 years of age, if any country or region in which the Company or its subsidiary operates has a more stringent definition of child labor, the definition shall prevail;

2. Forced labor refers to people provide labor or service against their will and under the threat of punishment;

3. The employees who are hired must be at least 16 years of age, the Group shall never recruit child labor and forced labor, and if it knows child labor or forced labor exists in its suppliers or subcontractors, the Group will not conduct business with them anymore;

4. The employees under 18 must not engage in any possible hazardous work and are prohibited to work at night, in order not to affect their education;

5. Before hiring any job applicant, HR should take effective procedures to verify their age. HR should check documents that prove the age of the applicant, including photo identification and birth certificate, driver's license, household register document issued by government authorities, academic certificates or any other credentials that prove the applicant's date of birth. And HR must ensure that the applicant's looks is consistent with the photograph on the ID card;

6. HR department should be provided prevention training about child labor and forced labor, especially those responsible for recruitment;

7. If employment of child labor under the legal minimum age is found in the Group, we will see to the best interests of the child labor, and take the following measures in line with relevant legislations:

   a. Take the child labor away from workplace immediately, ensure the safety of the child labor;

   b. Immediately notify the person in charge of HR to verify all relevant information, confirm whether the child labor under 16 years of age, sever immediately labor relations with the child labor, notify the local social welfare institution, and take remedial measures to protect his/her best interest;

   c. Send the child labor to a special occupational health labor inspection institution to do medical check-up, in order to confirm the child labor's physical and mental health, and conduct investigation in order to fully understand the child labor's situation;

   d. When the child labor reaches legal minimum age for employment, we will provide him/her with re-employment opportunity; and

e. Immediately find out the problems exist in the hiring process of the operating location and take improvement measures within 90 working days.

8. If forced labor is found in the Group, we will take the following measures in accordance with the requirements of the relevant legislation:

   a. Take the labor away from workplace immediately, ensure the safety of the labor;

   b. Immediately notify the person in charge of HR to verify all relevant information, confirm whether the person is subject to compulsory labor;

   c. Send the labor to a special occupational health labor inspection institution to do medical check-up in order to confirm the labor's physical and mental health, and conduct investigation to fully understand the labor's situation; and

   d. Immediately find out the problems exist in the hiring process of the operating location and take improvement measures within 90 working days.

OPERATING PRACTICE

B5. Policy on controlling environmental and social risk in supply chain

We attach importance to developing and look forward to maintaining long-term relationships with our suppliers, looking forward to forming long-term partnerships with them. We will take a fair and open principle on procurement of materials and services. We will only cooperate with the suppliers that share common moral values and standards with us, the Company also supports and encourages the suppliers to promote efficient use of resources and environmental protection and fulfill corporate social responsibility:

1. We advocate the principle of fair and open competition, and based on mutual trust, we develop and maintain long-term relationships with the suppliers and contractors;

2. We have strict ethical standards in procurement of materials and services to ensure the quality of the finished products and maintain the continued confidence of the clients, suppliers and general public;

3. We review our suppliers, assess them based on price, quality, suitability and demands, only those being rated as qualified are our approved suppliers, we only purchase from the approved suppliers;

4. We conduct follow-up assessment on the suppliers, and, if necessary, review them through a third party organization. When a supplier is found to be inconsistent with the Company's policy or contractual requirements, the Company will terminate future cooperation until the situation has been improved;

5. In an unprejudiced way, we shall choose appropriate, responsible and capable suppliers;

6. Support and encourage the suppliers to improve their environmental products and services, and their employees' benefits and protection;

7. The suppliers must comply with the relevant laws, regulations and contractual obligations; and

8. We shall adopt effective monitoring and management system to detect and prevent bribery, fraud or other misconducts in procurement and bidding processes.

B6. Policy on health, safety, advertising, labeling, privacy and remedies of the products and services

Health and safety of products and services

We are committed to providing the customers with high-quality products and services and settling customer complaints effectively, continuously improving service level and ensuring customer satisfaction.

1. Make sure that the products and services comply with related laws and guidelines;

2. Provide the customers with accurate product information and high-quality products, and develop recovery policy and after-sale service for related products;

3. If there is a problem with a product, we will take the initiative to explain the problem and find a mutually satisfactory solution for the customers; and

4. After handling a customer complaint, a document should be archived properly, and the relevant department shall review the complaint and develop measures to prevent the recurrence of similar complaints, so that the Company's service quality keeps improving.

Advertising, labeling and protection of customer information

Customer information will only be used for business purpose, not for other unrelated purposes. All employees must handle and use customer information with extreme caution, protect customer information, and comply with statutory requirements in privacy law.

B7. Policy on preventing bribery, extortion, fraud and money laundering

Ethics and integrity is the cornerstone of the Company's success, the Group adopts a "Zero Tolerance" approach to bribery, extortion, fraud in operating region and money laundering, in their daily work, the directors, management and staff must comply with related national and local government laws and regulations on prevention of bribery, extortion, fraud and money laundering. All employees not only have responsibility to understand and comply with the above regulations, but also have obligation to report violation to the fit and appropriate person. Any person, who contravenes the regulations, will be subject to disciplinary sanction. We will make every effort to protect the informer and received information. However, if an informer's intention is to harm others, they may be subject to disciplinary punishment.

1. ***Soliciting or accepting benefit***

Any employee (including the directors, management and all full-time, part-time, hourly, temporary workers) cannot directly, indirectly, or in any form, solicit or accept any form of benefits or do anything that might be seen as bribe from a third party, including, but not limited to, money, gift, excessive entertainment and hospitality, subsidized travel and accommodation, loan, pledging as guarantor, extending preferential credit terms, fee, reward, position, employment, contract, service, privilege, exemption of all or part of the responsibilities that ought to be fulfilled. The employees shall reject any direct or indirect interests and benefits relating to the Group's business, should such benefits being accepted, their objective attitude would hamper, or the interests of the Company would be harmed or invaded, or causing bias or misconduct.

In social events such as festivals, activities and entertainments and other daily routine, refusing to accept a modest gift may be considered impolite or lack of social grace, with that in mind, under the following principles, the employees may consider accepting benefits on a voluntary basis:

a. Receiving related benefits but will not affect performance and decision of the employee;

b. The employee will not feel the need to reciprocate;

c. The employee can openly discuss the benefits;

If the Group finds out any employee's inappropriate behavior of soliciting or accepting benefits, it will call the police and terminate employment relations with the employee.

2. ***Providing benefits***

In any case, any employee shall not provide bribeor improper benefits to any person or organization in order to seek personal gain or group interests. If the Group finds out any employee has conducted bribery, it will call the police and terminate employment relations with the employee.

3. ***Extortion***

Any person who seeks for benefit for his own or another person, or with intent to cause loss to another person, and makes any unwarranted demand by extortion,such conduct shall be considered as extortion. All employees shall not participate in, assist, cover up any kind of extortion, if the Group finds out any employee has conducted extortion, it will call the police and terminate employment relations with the employee.

4. ***Fraud***

Any person, who uses any means of deception to benefit himself or another person, or with intent to cause loss to another person, such conduct shall be considered fraud, the common employee fraud includes embezzlement, wage fraud and stealing company assets. All employees shall not participate in, assist, cover up any fraud, if the Group finds out any employee has conducted fraud, it will call the police and terminate employment relations with the employee.

5. ***Money Laundering***

Money laundering refers to an individual or institution attempts to conceal the source of illicit money, or makes such money look legitimate in any way. The Group will not tolerate any employee conduct, support and assist any form of money laundering.

The Company should establish an antimoney laundering team, general manager should be the team leader and responsible for organizing the antimoney laundering team. The team's main responsibilities include organizing, implementing antimoney laundering task, investigating reported money laundering, arranging antimoney laundering training, working with regulatory and judiciary authorities to investigate suspicious transactions of funds, as well as paying attention to requirements and updates in antimoney laundering laws and regulations.

Anti money laundering procedures include identifying clients, keeping transaction record, reporting and follow-up investigating of suspicious transaction, and anti money laundering training.

a. *Identifying clients*

In the development of clients, sales people must establish a high degree of awareness of antimoney laundering, through communication with prospective clients to comprehensively grasp the clients' information, running the first check on the clients. After successful client acquisition, regular contact is required to grasp the clients' updates. If an abnormal situation occurs, the sales person needs to timely communicate with the relevant departments.

b. *Keeping transaction record*

Sales people and accounting personnel should keep customer identification information, including information of registering customer identification, all sorts of records and information reflecting payment authority's customer identification process, and keep all sorts of transaction records such as each transaction's information, business voucher, ledger and documents used to reflect real situation of each transaction and other relevant information to ensure that each transaction is traceable.

c. *Reporting and follow-up investigating of suspicious transaction*

Sales people and accounting staff, should they find out a suspicious transaction, need to report it immediately to the corporate headquarters' anti money laundering team. The team analyses and investigates all suspicious transaction reported, if there are reasonable grounds to believe that the transaction or the customer has ties with money-laundering, terrorism and other criminal activities, the HKSAR Government JFIU will be notified.

d. *Anti money laundering training*

All employees should join in antimoney laundering training at least once a year, the training includes learning the danger of money laundering, antimoney laundering regulations, the role of the employees in anti-money laundering, how to identify suspicious transactions, ways to report suspicious transaction, the consequences if one fails to comply with antimoney laundering regulations.

COMMUNITY

B8. Policy on finding out the needs of the community, at which the Company operates, by means of community involvement, and ensuring that its business activities will take into account the interests of the community

For the Company's long-term development, community participation is important, we are committed to promoting development and construction activities of the community, at which we operate. We benefit the community through a variety of actions, such as investment, contributing money, time, products, services, influence, management knowledge and other resources.

We mainly participate in community building through three ways:

1. Organize, facilitate and support the staff to take part in volunteer services, such as regularly visiting people who need help, arranging outdoor activities for disadvantaged groups, holding Blood Donation Day.

2. By means of donation, we donate money, goods or services, directly or indirectly supporting or funding projects of various social service agencies. In addition to donation itself, we also appeal to the Company's stakeholders (including the employees and customers) to donate.

3. We endeavor to provide employment opportunities for the disadvantaged and create a win-win situation. Such as hiring the disabled people who have completed retraining courses, and giving priority to purchasing from the suppliers who hired the said disabled people, or participating in a variety of mentorship programs.

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

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

BUSINESS MODEL AND STRATEGY

All the Group's Processed Wood Products are processed by the Group's Wood Processing Procedure (as defined in the Management Discussion and Analysis section of this report), by which raw wood panels pass through an impregnation procedure of the Group's own impregnation fluid made with biological synthetic resin technologies. The Group applies the Wood Processing Procedure to poplars, a fast-growing tree species that withstands long, cold winters and short summers. Since poplars have a relatively short growth cycle of about 7 to 10 years, the supply of poplars in the PRC is relatively abundant and stable. The Group's Wood Processing Procedure improves the hardness, shrinkage and swelling rate, density, deformation resistance, cracking resistance, anticorrosiveness, bending strength and elasticity of poplar wood. In addition, wood panels that have been processed through the Group's Wood Processing Procedures are strengthened in terms of moisture resistance and flame resistance. Natural wood grain and figure are also preserved in the end-products. After the Group's Wood Processing Procedure, poplar can be used as a substitute of natural solid woods with wide application in the field of furniture making and indoor furnishing.

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

Details of the Group's business performance and financial review for the year ended 31 December 2016 are set out in the "Management Discussion and Analysis" section of this annual report.

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

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2016 is set out in the section of Financial Highlights, Chairlady's Statement, Management Discussion and Analysis, Environmental, Social and Governance Report and the paragraphs below.

Compliance with laws and regulations

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

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

The Group also complies with the requirements under the Companies Ordinance, the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Securities and Futures Ordinance (the "SFO") for the disclosure of information and corporate governance. The Group also complies with the requirements of Employment Ordinance and ordinances relating to occupational safety for the interest of employees of the Group in Hong Kong. No important event affecting the Group has occurred since the end of the year.

Environmental policies and performance

Emissions

The Group recognises the importance of environmental protection and has adopted stringent measures for environmental protection in order to ensure our compliance of the prevailing environmental protection laws and regulations. The formaldehyde emission of the Group's Processed Wood Products is low (5=0.5mg/L) and satisfies the formaldehyde emission standards for E0 grade, being the highest standard under the GB/T18102-2007 Standard and LY/T1700-2007 Standard (being PRC national standards limiting harmful substances in laminate floorings and wood based flooring for ground with heating system, respectively). Our products also passed a test for one hundred and seventy-five (175) substances on the Candidate List of Substances of Very High Concern ("SVHC") for authorisation and comply with the European REACH (Regulation (EC) No.1907/2006 of the European Parliament and of the Council of the European Union concerning, among others, registration, evaluation, authorisation and restriction of chemicals) requirements on the use of chemical substances and their potential impacts on both human health and the environment. In April 2014, the Group's products passed the requirements promulgated by European Chemicals Agency ("ECHA") as well as the tests for 19 heavy metal elements, which further proved that the Group's products are green, eco-friendly and pollution-free.

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

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

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

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

Use of resources

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

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

Principal Risks and Uncertainties Facing the Company

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

Impact of Local and International Regulations

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

Third-Party Risks

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

Key Relationships with Employees, Customers and Suppliers

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

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

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

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss on page 61 of this annual report.

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.

MANAGEMENT CONTRACTS

Save as disclosed in this report, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for approximately 25.3% of the total sales. The top five suppliers accounted for approximately 33.3% of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 6.6% of the total sales and the Group's largest supplier accounted for approximately 7.7% of the total purchases for the year.

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

FINANCIAL STATEMENTS

The financial performance of the Group for the year ended 31 December 2016 and the financial position of the Company and the Group as at 31 December 2016 are set out in the financial statements on pages 61 to 116.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27(a) to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVE

The Company's reserves available for distribution represent the share premium, and retained profits, if any, which in aggregate amounted to RMB260.0 million as at 31 December 2016.

PROPERTY, PLANT AND EQUIPMENT

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

INVESTMENT PROPERTIES

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

DONATIONS

During the year, the Group did not make charitable and other donations (2015: Nil).

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 27(c) to the financial statements.

DIRECTORS

The Directors during the year ended 31 December 2016 and up to the date of this report were:

Executive Directors

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

Independent non-executive Directors

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

Biographical information of Directors of the Group are set out from pages 19 to 20 of this annual report.

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

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years and each of the independent non-executive Directors has enter into an appointment letter with the Company for an initial term of three years, all commencing from 6 January 2017 to 5 January 2020, and will continue thereafter. The service contracts and appointment letters may be terminated by either party giving not less than three months' prior notice in writing, and is subject to termination provisions therein and retirement and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company or any other applicable laws from time to time whereby he/she shall vacate his/her office.

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

DISCLOSURE OF CHANGE IN INFORMATION ON DIRECTORS

Pursuant to rule 13.51(B) of the Listing Rules, the change of information on Directors is as follow:

Each of the executive Directors and independent non-executive Directors' service contract has been renewed for a term of three years commencing from 6 January 2017 to 5 January 2020, and will continue thereafter.

INDEMNITY OF DIRECTORS

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

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

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

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

(i) The Company

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

(ii) Associated corporation of the Company

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

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

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

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities(including debentures) of the Company or any other body corporate.

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

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

Name of Shareholder	Nature of interest	Number of Shares held	Approximate percentage of shareholding in the Company
Brilliant Plan Holdings Limited *(Note 1)*	Beneficial Owner	673,250,000	67.3%
Zhongtai Securities Company Limited *(Note 2)*	Person having a securities interest	570,000,000	57.0%
Mr. Li Yue	Beneficial Owner	79,250,000	7.9%

Notes:

(1) The entire issued share capital of Brilliant Plan Holdings Limited is beneficially owned by Ms. Yim Tsun who is deemed to be interested in the Shares held by Brilliant Plan Holdings Limited under the SFO. On 22 December 2016, Brilliant Plan Holdings Limited (as pledgor) pledged 570,000,000 shares in favour of Zhongtai Securities Company Limited (as pledgee) as a security for note certificate issued by Briliant Plan Holdings Limited.

(2) These 570,000,000 shares are held by Zhongtai Securities Company Limited (as pledgee), a company incorporated in PRC with limited liability.

Save as disclosed above, as at 31 December 2016, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

EQUITY-LINKED AGREEMENT

Details of the equity-linked agreement entered into during the year or subsisting at the end of the year are set out below:

Share Option Scheme

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

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

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

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

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

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

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

(iii) the nominal value of the Share.

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

There is no option outstanding, granted, exercised, cancelled and lapsed during the year ended 31 December 2016.

As at the date of this report, the total number of shares available for issue under the Share Option Scheme is 100,000,000, representing approximately 10% of the issued share capital of the Company.

RELATED PARTY TRANSACTIONS

Details of material related party transactions entered into by the Group during the year are set out in note 28 to the financial statements. For the year ended 31 December 2016, the Company has completed with the disclosure requirements of Chapter 14A of the Listing Rules in respect of such transactions.

CONNECTED TRANSACTION

For the year ended 31 December 2016, there was no other transactions which constituted connected transaction(s) or continuing connected transaction(s) of the Company.

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2016, none of the Directors or their respective close associates had any business or interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

In order to protect the Group's interest in its business activities, on 20 December 2013, each of Brilliant Plan Holdings Limited ("Brilliant Plan") and Ms. Yim Tsun ("Ms. Yim"), the controlling shareholders of the Company (the "Controlling Shareholders"), have entered into a non-competition deed with the Company (for itself and on behalf of its subsidiaries), pursuant to which each of them shall not, and shall procure that none of its/her close associates shall, directly or indirectly, establish, invest, involve in, manage, operate or otherwise hold any right or interest, directly or indirectly, in the business of processing, manufacturing and sales of Processed Wood Products, and such other business conducted or carried on by the Group from time to time within the PRC (inclusive of Hong Kong) and such other places as the Group may conduct or carry on business from time to time. The Company has received a confirmation from the Controlling Shareholders on their compliance with the non-competition deed for the year ended 31 December 2016.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed in this report, no contract of significance has been entered into between the Company or any of its subsidiaries and the then controlling Shareholders or any of their subsidiaries, at any time during the year ended 31 December 2016. None of the Shareholders entered into any arrangement to waive or agree to waive any dividend.

BANK AND OTHER LOANS

Particulars of bank and other loans of the Group as at 31 December 2016 are set out in note 23 to the financial statements.

FINANCE LEASE

Details of obligations under finance lease of the Group as at 31 December 2016 are set out in note 24 to the financial statements.

CONTRIBUTIONS TO THE RETIREMENT BENEFITS SCHEMES

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

FINANCIAL HIGHLIGHTS

A summary of the results and of the assets and liabilities of the Group for the past five financial periods is set out in the financial highlights section on page 4 of this report.

USE OF PROCEEDS

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

For details, please refer to the paragraph headed "Use of Proceeds" in the "Management Discussion and Analysis" section of this annual report.

INTEREST OF COMPLIANCE ADVISER

In accordance with Rule 3A.19 of the Listing Rules, the Company has appointed Guotai Junan Capital Limited ("Guotai Junan") to be the compliance adviser. As informed by Guotai Junan, neither Guotai Junan nor any of its close associates and none of the directors or employees of Guotai Junan, has or may, have any interest in any securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities).

ANNUAL GENERAL MEETING

The Annual General Meeting for the year ended 31 December 2016 is scheduled to be held on Wednesday, 17 May 2017. A notice convening the Annual General Meeting will be issued and despatched to Shareholders on 12 April 2017.

AUDITORS

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

By order of the Board
Yim Tsun
Chairlady
24 March 2017

KPMG

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

OPINION

We have audited the consolidated financial statements of China Wood Optimization (Holding) Limited (the "Company") and its subsidiaries (the "Group") set out on pages 61 to 116, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition	
Refer to note 4 to the consolidated financial statements and the accounting policies on page 78 Note 2 (r).	
The Key Audit Matter	**How the matter was addressed in our audit**
Revenue of the Group for the year ended 31 December 2016 principally comprised the sale of wood products to wood panel distributors and furniture manufacturers, and the rendering of wood processing services for wood panel distributors and furniture manufacturers. Revenue from sales of wood products is generally recognised when the self-produced wood products are despatched to and accepted by customers. Revenue from the rendering of wood processing services is generally recognised when the processed wood products are despatched to and accepted by customers. We identified revenue recognition as a key audit matter because revenue is a key performance indicator for the Group and the key driver of gross profit which increases the risk that revenue may be manipulated to meet targets or expectations and because there is a risk that particular terms of sale may not be met and, as a result, revenue may be recognised in the incorrect period.	Our audit procedures to assess the recognition of revenue included the following: • assessing the design, implementation and operating effectiveness of key internal controls relating to the recognition of revenue; • inspecting sales contracts with customers for the sale of goods and the rendering of services, on a sample basis, to obtain an understanding of the contract terms and the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards; • comparing sales transactions, on a sample basis, with the underlying delivery notes for goods self-produced and processed for customers, monthly confirmations of the transaction amounts and quantity of wood products sold or processed from customers and cash receipts and obtaining audit confirmations of the transaction amounts and quantity of wood products sold or processed from customers, on a sample basis, to assess whether the related revenue was recognised in the Group's revenue recognition accounting policies; • performing site visits and interviewing management of significant new customers to gain understanding of the operations of these new customers and assessing whether the revenue recorded by the Group during the current year in respect of these new customers was consistent with the perceived size and nature of the new customers' operations;

The Key Audit Matter	How the matter was addressed in our audit
	• comparing sales transactions just before and after the financial year end, on a sample basis, with the terms as set out in the underlying sales contracts and the underlying goods delivery notes for goods self-produced and processed for customers and monthly confirmations of the transaction amounts and quantity of wood products sold or processed from customers, to assess if the related revenue was recognised in the appropriate accounting period; • scrutinising the sales ledger after the year end to identify significant credit notes issued and sales returns and inspecting relevant underlying documentation to assess if the related adjustments to revenue had been accounted for in the appropriate accounting period in accordance with the requirements of the prevailing accounting standards; and • inspecting significant manual adjustments to revenue raised during the reporting period, enquiring of management the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ho Ying Man, Simon.

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

24 March 2017

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	4	**486,497**	609,880
Cost of sales	6(c)	**(341,128)**	(455,725)
Gross profit	4(b)	**145,369**	154,155
Other income	5	**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	6(a)	**(8,364)**	(7,767)
Profit before taxation	6	**90,085**	92,040
Income tax	7	**(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)	10	**0.070**	0.075

The notes on pages 68 to 116 form part of these financial statements.

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

The notes on pages 68 to 116 form part of these financial statements.

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	11	**313,320**	313,146
Investment properties	12	**6,918**	7,383
Lease prepayments	13	**54,890**	54,270
Intangible asset		**–**	18
Other receivables	17	**4,713**	3,992
Deferred tax assets	26(c)	**8,372**	864
		388,213	379,673
Current assets			
Inventories	15	**150,698**	84,832
Trade receivables	16	**18,936**	16,617
Prepayments, deposits and other receivables	17	**27,905**	19,664
Prepaid income tax	26(a)	**–**	21
Cash and cash equivalents	18	**115,817**	117,312
Pledged time deposits	19	**50,000**	42,300
		363,356	280,746
Current liabilities			
Trade and bills payables	20	**18,721**	–
Receipts in advance	21	**75**	198
Accrued expenses and other payables	22	**26,470**	52,843
Bank and other loans	23(a)	**8,629**	37,169
Obligations under finance lease	24	**6,270**	7,358
Income tax payable	26(a)	**8,794**	–
		68,959	97,568
Net current assets		**294,397**	183,178
Total assets less current liabilities		**682,610**	562,851

The notes on pages 68 to 116 form part of these financial statements.

At 31 December 2016
(Expressed in RMB)

	Note	**2016**	2015
		RMB' 000	RMB' 000
Non–current liabilities			
Bank and other loans	23(b)	**44,828**	13,458
Obligations under finance lease	24	**5,487**	18,042
Deferred income	25	**33,063**	3,948
Deferred tax liability	26(c)	**1,500**	–
		84,878	35,448
NET ASSETS		**597,732**	527,403
CAPITAL AND RESERVES	27		
Share capital		**7,921**	7,921
Reserves		**589,811**	519,482
TOTAL EQUITY		**597,732**	527,403

Approved and authorised for issue by the board of directors on 24 March 2017.

Yim Tsun
Director

Li Li
Director

The notes on pages 68 to 116 form part of these financial statements.

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

	Attributable to equity shareholders of the Company						
	Share capital RMB'000 (Note 27 (c))	Share premium RMB'000 (Note 27 (d)(i))	Other reserve RMB'000 (Note 27 (d)(ii))	Statutory reserves RMB'000 (Note 27 (d)(iii))	Exchange reserve RMB'000 (Note 27 (d)(iv))	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**

The notes on pages 68 to 116 form part of these financial statements.

Consolidated Cash Flow Statement

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

	Note	2016 RMB'000	2015 RMB'000
Operating activities			
Profit before taxation		**90,085**	92,040
Adjustments for:			
Depreciation and amortisation	6(c)	**28,159**	20,121
Net loss on disposal of property, plant and equipment	5	**334**	20
Interest income	5	**(1,765)**	(1,401)
Finance costs	6(a)	**8,335**	4,967
Government grants related to assets		**(1,714)**	–
Changes in working capital:			
Increase in inventories		**(65,866)**	(2,448)
Increase in trade receivables		**(2,319)**	(6,459)
Increase in prepayments, deposits and other receivables		**(9,015)**	(7,200)
Increase/(decrease) in trade and bills payables		**18,721**	(181)
Decrease in receipts in advance		**(123)**	(326)
Increase/(decrease) in accrued expenses and other payables		**2,269**	(360)
Cash generated from operations		**67,101**	98,773
Income tax paid	26(a)	**(17,085)**	(15,749)
Net cash generated from operating activities		**50,016**	83,024
Investing activities			
Payments for purchase of property, plant and equipment		**(41,094)**	(104,283)
Proceeds from disposal of property, plant and equipment		**674**	4,779
Payments for land use rights		**(26,938)**	(13,554)
Increase in pledged time deposits	19	**(50,000)**	(42,300)
Decrease in pledged time deposits		**42,300**	–
Government grants received		**32,605**	–
Interest received		**1,765**	1,401
Net cash used in investing activities		**(40,688)**	(153,957)

The notes on pages 68 to 116 form part of these financial statements.

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

	Note	2016 RMB'000	2015 RMB'000
Financing activities			
Proceeds from new bank and other loans		**40,000**	52,163
Repayment of bank and other loans		**(37,170)**	(59,536)
Capital element of finance lease rentals paid		**(5,517)**	(1,639)
Interest element of finance lease rentals paid		**(2,745)**	–
Other finance costs paid		**(5,580)**	(5,041)
Net cash used in financing activities		**(11,012)**	(14,053)
Net decrease in cash and cash equivalents		**(1,684)**	(84,986)
Cash and cash equivalents at 1 January	18	**117,312**	202,079
Effect of foreign exchange rate changes		**189**	219
Cash and cash equivalents at 31 December	18	**115,817**	117,312

The notes on pages 68 to 116 form part of these financial statements.

1 CORPORATE INFORMATION

China Wood Optimization (Holding) Limited (the "Company") was incorporated in the Cayman Islands on 6 June 2012 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time. The shares of the Company were listed on the Growth Enterprise Market (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 services.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Changes in accounting policies

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

- Annual Improvements to *IFRSs 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.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries (Continued)

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised consolidated profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(i)(ii)), unless the investment is classified as held-for-sale.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(i)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, labour cost, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(t)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight-line method over their estimated useful lives as follows:

	Estimated useful lives
Plant and buildings	20 years
Machinery and equipment	10 years
Motor vehicles and other equipment	5 – 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see Note 2(h)) to earn rental income and/or for capital appreciation.

Investment properties are stated at cost less accumulated depreciation and impairment losses (see Note 2(i)(ii)). The depreciation policy is the same as that of property, plant and equipment (see Note 2(e)). Rental income from investment properties is accounted for as described in Note 2(r)(iii).

(g) Intangible asset

Expenditure on research and development activities is recognised as an expense in the period in which it is incurred.

Intangible asset that is acquired by the Group is stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(i)(ii)).

Amortisation of intangible asset with finite useful life is charged to profit or loss on a straight-line basis over the asset's estimated useful life. The following intangible asset with finite useful life is amortised from the date it is available for use and its estimated useful life is as follows:

	Estimated useful life
Patent use right	5 years

Both the period and method of amortisation are reviewed annually.

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leased assets (Continued)

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 2(e). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(i)(ii). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Payments made on the acquisition of land held under an operating lease is stated at cost less accumulated amortisation and impairment losses (see Note 2(i)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the period of the lease term.

(i) Impairment of assets

(i) Impairment of receivables

Receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the market, economic or legal environment that have an adverse effect on the debtor.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(i) Impairment of receivables (Continued)

If any such evidence exists for trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of receivables whose recoveries are considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against the receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– investment properties;

– pre-paid interests in leasehold land classified as being held under an operating lease;

– intangible asset; and

– investment in a subsidiary in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(i)(i) and 2(i)(ii)).

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Inventories (Continued)

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see Note 2(i)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see Note 2(i)(i)).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

The Group entered into an arrangement with a financial leasing institution in which the Group sold certain equipment to this institution and then leased back with scheduled lease payments. The Group has an option to buy back these equipment at a token price at the end of the lease term, i.e. the bargain purchase option. Considering that the bargain purchase option is set at a token price, it is almost certain that the Group would exercise such option. Such arrangement does not, in substance, involve a lease under IAS 17. Instead, the sales and leaseback transactions are closely interrelated and are accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole. The substance of this arrangement is an interest-bearing borrowing, secured by the underlying assets and repayable in instalments over the lease term. The information of the underlying assets and the secured loans are disclosed in Notes 11(b) and 23(b)(ii).

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Trade and other payables

Trade and other payables are initially recognised at fair value, and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Income tax (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Income tax (Continued)

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the customers. Revenue excludes value added tax or other sales taxes and is after deduction of any sales discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the possible return of goods, or continuing management involvement with the goods.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Revenue recognition (Continued)

(ii) Rendering of service

Revenue from the rendering of wood processing procedure service is generally recognised when the processed wood products are despatched to and accepted by the customers.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and consequently recognised in profit or loss over the useful life of the asset.

(s) Translation of foreign currencies

Foreign currency transactions are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency of the entity to which they relate using the foreign exchange rates ruling at the transaction dates.

The presentation currency of the Group is RMB. The results of foreign operations which have a functional currency other than RMB are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or completed.

(u) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) the entity and the Group are members of the same group.

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) both entities are joint ventures of the same third party.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) the entity is controlled or jointly controlled by a person identified in (a).

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Related parties (Continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products, the nature of production processes, the type or class of customers, the methods used to distribute the products, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

Note 29 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment of trade and other receivables

The Group maintains an allowance for doubtful accounts for estimated losses resulting from the inability of the customers and other debtors to make the required payments. The Group bases the estimates on the assessment of recoverability of individual receivable balance, debtor credit-worthiness, and historical write-off experience. If the financial condition of the customers and other debtors were to deteriorate, actual write-offs would be higher than estimated.

(b) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 2(i)(ii). These assets are tested for impairment whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future years.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(c) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. The management reviews the estimated useful lives and residual values of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The determination of the useful lives and residual values are based on historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the processing, production and sale of wooden products 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.

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(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

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Segment results (Continued)

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.

5 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

6 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).

6 PROFIT BEFORE TAXATION (Continued)

(b) Staff costs#:

	2016 RMB'000	2015 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 RMB'000	2015 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	**300**	–
Research and development costs (including costs relating to staff costs disclosed in *Note 6(b)*)	**13,289**	20,366
Cost of inventories# *(Note 15(b))*	**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 6(b)* for each of these types of expenses.

(Expressed in RMB unless otherwise indicated)

7 INCOME TAX

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

	2016 RMB'000	2015 RMB'000
Current taxation *(Note 26(a))*:		
– The PRC Corporate Income Tax	**25,900**	14,659
– The PRC Withholding Tax	**–**	2,000
	25,900	16,659
Deferred taxation *(Note 26(b))*:		
– 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 RMB'000	2015 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).

(Expressed in RMB unless otherwise indicated)

7 INCOME TAX (Continued)

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

(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.

(Expressed in RMB unless otherwise indicated)

8 DIRECTORS' EMOLUMENTS

Details of directors' emoluments are set out below:

	2016				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Ms Yim Tsun	**720**	**–**	**–**	**–**	**720**
Mr Li Li	**720**	**–**	**–**	**–**	**720**
Independent non-executive directors					
Mr Zhang Dali	**128**	**–**	**–**	**–**	**128**
Mr Pu Junwen	**128**	**–**	**–**	**–**	**128**
Mr Lau Ying Kit	**128**	**–**	**–**	**–**	**128**
	1,824	**–**	**–**	**–**	**1,824**

	2015				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Ms Yim Tsun	675	–	–	–	675
Mr Li Li	675	–	–	–	675
Independent non-executive directors					
Mr Zhang Dali	121	–	–	–	121
Mr Pu Junwen	121	–	–	–	121
Mr Lau Ying Kit	121	–	–	–	121
	1,713	–	–	–	1,713

No emoluments were paid by the Group to the directors during the year in connection with their retirement from employment or compensation for loss of office with the Group, or inducement to join. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2015: two) are directors whom the emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the remaining three individuals (2015: three) who are not directors are as follows:

	2016 **RMB'000**	2015 RMB'000
Salaries, allowances and benefits in kind	**953**	941
Discretionary bonuses	**160**	80
Retirement scheme contributions	**62**	63
	1,175	1,084

The emoluments of the individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following bands:

	2016 **Number of individuals**	2015 Number of individuals
HK$Nil – HK$1,000,000	**3**	3

No emoluments were paid or payable by the Group to these employees as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

10 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share for the year ended 31 December 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 **'000**	2015 '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

(Expressed in RMB unless otherwise indicated)

10 BASIC AND DILUTED EARNINGS PER SHARE (Continued)

(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.

11 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:					
At 1 January 2015	100,207	120,415	8,591	–	229,213
Additions	79	3,484	1,488	143,839	148,890
Transfer in/(out)	69,687	30,136	–	(99,823)	–
Reclassification from investment properties *(Note 12)*	9,572	–	–	–	9,572
Disposals	–	(1,336)	–	–	(1,336)
At 31 December 2015	179,545	152,699	10,079	44,016	386,339
Accumulated depreciation:					
At 1 January 2015	(13,916)	(36,169)	(2,884)	–	(52,969)
Charge for the year	(5,211)	(12,450)	(1,373)	–	(19,034)
Reclassification from investment properties *(Note 12)*	(1,553)	–	–	–	(1,553)
Written back on disposals	–	363	–	–	363
At 31 December 2015	(20,680)	(48,256)	(4,257)	–	(73,193)
Net book value:					
At 31 December 2015	158,865	104,443	5,822	44,016	313,146
Cost:					
At 1 January 2016	**179,545**	**152,699**	**10,079**	**44,016**	**386,339**
Additions	**1,312**	**2,095**	**2,416**	**22,112**	**27,935**
Transfer in/(out)	**48,547**	**16,823**	**–**	**(65,370)**	**–**
Disposals	**–**	**(1,433)**	**(539)**	**–**	**(1,972)**
At 31 December 2016	**229,404**	**170,184**	**11,956**	**758**	**412,302**
Accumulated depreciation:					
At 1 January 2016	**(20,680)**	**(48,256)**	**(4,257)**	**–**	**(73,193)**
Charge for the year	**(9,714)**	**(15,685)**	**(1,354)**	**–**	**(26,753)**
Written back on disposals	**–**	**827**	**137**	**–**	**964**
At 31 December 2016	**(30,394)**	**(63,114)**	**(5,474)**	**–**	**(98,982)**
Net book value:					
At 31 December 2016	**199,010**	**107,070**	**6,482**	**758**	**313,320**

(Expressed in RMB unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Reconciliation of carrying amount (Continued)

At 31 December 2016 the Group has obtained the ownership certificates for all the properties.

(b) Assets sold and leased back

In September 2015, Hebei AMS Wood Processing Co., Ltd. ("Hebei AMS"), one of the subsidiaries of the Group, entered into an arrangement with a financial leasing institution in which Hebei AMS sold certain equipment to this institution at a net consideration of RMB22,163,000 and then leased back with scheduled lease payments together with an option to buy back these equipment at a price of RMB1 when the lease term is expired in September 2018. As disclosed in Note 2(m), such arrangement is accounted for as an interest-bearing borrowing, of which the balance at 31 December 2016 is RMB13,457,000 (31 December 2015: RMB20,627,000), secured by the relevant machinery and equipment, of which the net book value at 31 December 2016 is RMB28,631,000 (31 December 2015: RMB33,175,000). Detailed information of this borrowing is disclosed in Note 23(b)(ii).

(c) Assets held under finance lease

In November 2015, Jiangsu AMS Wood Industry Company Limited ("Jiangsu AMS"), one of the subsidiaries of the Group, entered into a finance lease arrangement with a financial leasing institution. The lease term is from November 2015 to November 2018. In April 2016, Jiangsu AMS entered into a supplementary agreement with this institution to reduce 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 RMB17,209,000 (31 December 2015: RMB26,614,000).

(Expressed in RMB unless otherwise indicated)

12 INVESTMENT PROPERTIES

	2016 **RMB'000**	2015 RMB'000
Cost:		
At 1 January	**9,783**	19,355
Reclassification to property, plant and equipment *(Note 11)*	**–**	(9,572)
At 31 December	**9,783**	9,783
Accumulated amortisation:		
At 1 January	**(2,400)**	(3,224)
Reclassification to property, plant and equipment *(Note 11)*	**–**	1,553
Charge for the year	**(465)**	(729)
At 31 December	**(2,865)**	(2,400)
Net book value:		
At 31 December	**6,918**	7,383

Notes:

(i) The investment properties owned by the Group are situated in the PRC. According to the property valuation report issued by Avista Valuation Advisory Limited, an independent qualified valuer, the fair value of the Group's investment properties at 31 December 2016 is RMB13,230,000 (31 December 2015: RMB12,840,000).

(ii) Investment properties leased out under operating leases

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

Total future minimum lease receivables under non-cancellable operating leases are as follows:

	2016 **RMB'000**	2015 RMB'000
Within 1 year	**1,064**	266
After 1 year but within 5 years	**266**	–
	1,330	266

13 LEASE PREPAYMENTS

	2016 RMB'000	2015 RMB'000
Cost:		
At 1 January	**55,859**	16,910
Additions	**1,543**	38,949
At 31 December	**57,402**	55,859
Accumulated amortisation:		
At 1 January	**(1,589)**	(1,261)
Charge for the year	**(923)**	(328)
At 31 December	**(2,512)**	(1,589)
Net book value:		
At 31 December	**54,890**	54,270

Lease prepayments represent land use right premiums paid or to be paid by the Group for land situated in the PRC, with a lease period of 50 years. At 31 December 2016 the Group has obtained the ownership certificates for all the land use rights.

14 INTERESTS IN SUBSIDIARIES

The following list contains the particulars of the Group's subsidiaries.

Name of subsidiary	Place and date of establishment/ incorporation	Particulars of registered/ issued and paid-up capital	Proportion of ownership interest			Principal activities
			The Group's effective interest	Held by the Company	Held by a subsidiary	
Hebei AMS Wood Processing Co., Ltd. 河北愛美森木材加工有限公司*	The PRC 3 November 2009	RMB115,333,000	100%	–	100%	Production and sale of wood panels/rendering of wood processing procedure service
Celestial New Limited 天新有限公司**	The British Virgin Islands 10 April 2012	United States Dollar ("USD")1	100%	100%	–	Investment holding
China Wood Optimization (HK) Limited 中國優化材(香港)有限公司**	Hong Kong 13 April 2012	1 share	100%	–	100%	Investment holding
Jiangsu AMS Wood Industry Company Limited 江蘇愛美森木業有限公司*	The PRC 18 March 2015	RMB156,000,000	100%	–	100%	Production and sale of wood panels/rendering of wood processing procedure service

* These companies are wholly foreign owned enterprises established in the PRC. The English translation of their names are for reference only. The official names of these companies are in Chinese.

** These companies are limited liability companies incorporated outside of the PRC.

15 INVENTORIES

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

	2016	2015
	RMB'000	RMB'000
Raw materials	**45,862**	38,091
Work in progress	**18,688**	21,441
Finished goods	**86,148**	25,300
	150,698	84,832

15 INVENTORIES (Continued)

(b) The analysis of the amount of inventories recognised as an expense and included in the consolidated statement of profit or loss during the year is as follows:

	2016	2015
	RMB'000	RMB'000
Carrying amount of inventories sold	**341,128**	455,725

16 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.

Further details on the Group's credit policy are set out in Note 29(a).

17 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Prepayments for purchase of inventories	**20,258**	12,235
Prepaid value added tax	**3,759**	3,661
Others	**3,888**	3,768
Short-term prepayment, deposits and other receivables	**27,905**	19,664
Add: long-term other receivables		
Deposits for other loan and obligations under finance lease	**4,713**	3,992
	32,618	23,656

All of the short-term prepayments, deposits and other receivables at 31 December 2016 and 2015 are expected to be recovered or recognised as expenses within one year.

18 CASH AND CASH EQUIVALENTS

	2016 RMB'000	2015 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.

19 PLEDGED TIME DEPOSITS

	2016 RMB'000	2015 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.

(Expressed in RMB unless otherwise indicated)

19 PLEDGED TIME DEPOSITS (Continued)

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.

20 TRADE AND BILLS PAYABLES

	2016 RMB'000	2015 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 RMB'000	2015 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.

(Expressed in RMB unless otherwise indicated)

21 RECEIPTS IN ADVANCE

	2016	2015
	RMB'000	RMB'000
Receipts in advance from customers	**75**	198

Receipts in advance represented advances received from customers and where the goods have not been delivered to them as of the end of the reporting period.

All of the receipts in advance are expected to be recognised as revenue within one year.

22 ACCRUED EXPENSES AND OTHER PAYABLES

	2016	2015
	RMB'000	RMB'000
Payables for construction and purchase of property, plant and equipment	**13,552**	18,585
Payables for land use right premiums	**–**	25,395
Payables for staff related costs	**6,197**	4,619
Payables for miscellaneous taxes	**1,301**	1,377
Payables for interest expenses	**63**	53
Others	**2,829**	2,062
Financial liabilities measured at amortised cost	**23,942**	52,091
Deferred income	**2,528**	752
	26,470	52,843

All of the accrued expenses and other payables at 31 December 2016 and 2015 are expected to be settled or recognised in profit or loss within one year or are repayable on demand.

(Expressed in RMB unless otherwise indicated)

23 BANK AND OTHER LOANS

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

	2016 RMB'000	2015 RMB'000
Short-term bank loan:		
– secured *(Note (i))*	**–**	30,000
Add: current portion of long-term other loan *(Note 23(b))*	**8,629**	7,169
	8,629	37,169

Note:

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

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

	2016 RMB'000	2015 RMB'000
Long-term bank loan:		
– secured *(Note (i))*	**40,000**	–
Long-term other loan from a financial leasing institution		
– secured *(Note (ii))*	**13,457**	20,627
	53,457	20,627
Less: current portion of long-term other loan *(Note 23(a))*	**(8,629)**	(7,169)
	44,828	13,458

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

	2016 RMB'000	2015 RMB'000
Within 1 year or on demand	**8,629**	7,169
After 1 year but within 2 years	**44,828**	8,629
After 2 years but within 5 years	**–**	4,829
	53,457	20,627

(Expressed in RMB unless otherwise indicated)

23 BANK AND OTHER LOANS (Continued)

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

Notes:

(i) At 31 December 2016, the aggregate carrying value of the secured property, plant and equipment, investment properties and land use right of the Group for the long-term bank loan is RMB61,353,000 (31 December 2015: RMBNil).

(ii) At 31 December 2016, the aggregate carrying value of the secured property, plant and equipment of the Group for the long-term other loan is RMB28,631,000 (31 December 2015: RMB33,175,000), as disclosed in Note 11(b). The effective interest rate of this long-term other loan is 17.09%.

(c) At 31 December 2016, the Group's banking loan facility amounted to RMB80,000,000 (31 December 2015: RMB60,000,000) was utilised to the extent of RMB40,000,000 (31 December 2015: RMB30,000,000).

(d) None of the Group's bank and other loans are subject to the fulfilment of covenants relating to financial ratios commonly found in lending arrangements with financial institutions.

Further details of the Group's management of liquidity risk are set out in Note 29(b).

24 OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2016, the Group had obligations under finance lease repayable as follows:

	2016		2015	
	Present value of the minimum lease payments RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	**6,270**	**7,987**	7,358	11,111
After 1 year but within 2 years	**5,487**	**5,990**	9,688	12,059
After 2 years but within 5 years	**–**	**–**	8,354	9,044
	5,487	**5,990**	18,042	21,103
	11,757	**13,977**	25,400	32,214
Less: total future finance charges		**(2,220)**		(6,814)
Present value of lease obligations		**11,757**		25,400

25 DEFERRED INCOME

	2016 RMB'000	2015 RMB'000
At 1 January	**4,700**	5,452
Additions	**32,605**	–
Credited to profit or loss	**(1,714)**	(752)
	35,591	4,700
Less: current portion of deferred income	**(2,528)**	(752)
At 31 December	**33,063**	3,948

Deferred income mainly represents government grants related to construction of property, plant and equipment and would be recognised as income on a straight-line basis over the expected useful life of the relevant assets. During the year ended 31 December 2016, one of the subsidiaries of the Group established in the PRC received government grants of RMB31,728,000 from the local government authority, of which the Group fulfilled conditions attached to the subsidies.

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Movements of current taxation in the consolidated statement of financial position are as follows:

	2016 RMB'000	2015 RMB'000
Prepaid income tax at 1 January	**(21)**	(931)
Provision for income tax on the estimated taxable profits for the year *(Note 7(a))*	**25,900**	16,659
Income tax paid during the year	**(17,085)**	(15,749)
Income tax payable/(prepaid income tax) at 31 December	**8,794**	(21)

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred tax assets and liabilities recognised:

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

Deferred tax arising from:	Assets-Accrued expenses and government grants and related amortisation	Liabilities - Fair value adjustments on property, plant and equipment and lease prepayments and related depreciation and amortisation in connection with the acquisition of a subsidiary	Liabilities - Retained profits to be distributed	Net
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	1,199	(67)	–	1,132
(Charged)/credited to the consolidated statement of profit or loss *(Note 7(a))*	(280)	12	–	(268)
At 31 December 2015	919	(55)	–	864
Credited to the consolidated statement of profit or loss *(Note 7(a))*	7,496	12	(1,500)	6,008
At 31 December 2016	8,415	(43)	(1,500)	6,872

(c) Reconciliation of deferred tax assets and liabilities recognised in the consolidated statement of financial position:

	2016	2015
	RMB'000	RMB'000
Deferred tax assets recognised in the consolidated statement of financial position	**8,372**	864
Deferred tax liabilities recognised in the consolidated statement of financial position	**(1,500)**	-
	6,872	864

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(d) Deferred tax liabilities not recognised

As disclosed in Note 7(b)(v), at 31 December 2016 taxable temporary differences relating to the undistributed profits of the subsidiaries of the Group established in the PRC amounted to RMB258,226,000 (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.

27 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital	Share premium	Exchange reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 27(c))	(Note 27(d)(i))	(Note 27(d)(iv))		
Balance at 1 January 2015	7,921	259,976	(1,412)	(13,128)	253,357
Changes in equity for 2015:					
Loss for the year	–	–	–	(3,964)	(3,964)
Other comprehensive income	–	–	15,459	–	15,459
Total comprehensive income	–	–	15,459	(3,964)	11,495
Balance at 31 December 2015	7,921	259,976	14,047	(17,092)	264,852
Balance at 1 January 2016	7,921	259,976	14,047	(17,092)	264,852
Changes in equity for 2016:					
Loss for the year	–	–	–	(5,868)	(5,868)
Other comprehensive income	–	–	17,598	–	17,598
Total comprehensive income	–	–	17,598	(5,868)	11,730
Balance at 31 December 2016	7,921	259,976	31,645	(22,960)	276,582

27 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends

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

	2016 RMB'000	2015 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).

(c) 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

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by Section 34 of the Companies Law, Chapter 22 (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time.

(ii) Other reserve

Other reserve represented the capital contribution paid by the ultimate holding company of the Company on the acquisition of a subsidiary in excess of its paid-in capital prior to the group reorganisation that took place in 2012.

27 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Nature and purpose of reserves (Continued)

(iii) Statutory reserves

In accordance with the articles of association of the subsidiaries of the Group established in the PRC, these subsidiaries are required to set up certain statutory reserves, which are non-distributable. The appropriation to these reserves is at discretion of the directors of these subsidiaries. The statutory reserves can only be utilised for predetermined means upon approval by the relevant authority.

(iv) Exchange reserve

The exchange reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations into RMB. The reserve is dealt with in accordance with the accounting policy set out in Note 2(s).

(e) Distributability of reserves

At 31 December 2016, the aggregate amount of reserves (including the Company's retained profits, if any, and share premium) available for distribution to equity shareholders of the Company is RMB259,976,000 (31 December 2015: RMB 259,976,000). 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.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of the ratio of total liabilities to total assets (i.e. the "liability-to-asset ratio"). During the year ended 31 December 2016, the Group's strategy was to maintain the liability-to-asset ratio at an acceptable level. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to equity shareholders, issue new shares, return capital to equity shareholders, raise new debt financing or sell assets to reduce debt. At 31 December 2016, the liability-to-asset ratio of the Group is 20.5% (31 December 2015: 20.1%).

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

(Expressed in RMB unless otherwise indicated)

28 MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company as disclosed in Note 8 and certain of the highest paid employees of the Group as disclosed in Note 9, is as follows:

	2016 **RMB'000**	2015 RMB'000
Short-term employee benefits	**3,278**	2,969
Retirement schemes contributions	**103**	104
	3,381	3,073

Total remuneration is included in "staff costs" (see Note 6(b)).

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

Individual credit evaluations are performed on all customers and debtors. These evaluations focus on the past history of making payments of the customers/debtors when due and current ability to pay, and take into account information specific to the customers/debtors as well as pertaining to the economic environment in which the customers/debtors operate. For trade receivables, cash before delivery is generally required for all customers, where a credit period of 30 to 60 days may be granted to customers, depending on credit assessment carried out by management on an individual customer basis. Normally, the Group does not obtain collateral from customers and debtors.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(a) Credit risk (Continued)

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer/debtor rather than the industry in which the customers/debtors operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers/debtors. At 31 December 2016, 32.6% (31 December 2015: 24.1%) of the total trade receivables were due from the Group's largest debtor, and 94.6% of the total trade receivables were due from the Group's largest five debtors (31 December 2015: 71.7%).

Except for the guarantees given by the Group as set out in Notes 19(i) and 31, the Group does not provide any other guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Notes 16 and 17.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans and other debt financing to cover expected cash demands, where approvals by the directors of the Company are required when the borrowings exceed certain pre-determined levels of authorisation. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(b) Liquidity risk (Continued)

The following table details the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest dates the Group can be required to pay:

	2016				
	Contractual undiscounted cash out flow				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	18,721	–	–	18,721	18,721
Accrued expenses and other payables measured at amortised cost	23,942	–	–	23,942	23,942
Bank and other loans	12,878	45,662	–	58,540	53,457
Finance lease liabilities	7,987	5,990	–	13,977	11,757
	63,528	51,652	–	115,180	107,877

	2015				
	Contractual undiscounted cash out flow				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accrued expenses and other payables measured at amortised cost	52,091	–	–	52,091	52,091
Bank and other loans	41,515	10,598	5,175	57,288	50,627
Finance lease liabilities	11,111	12,059	9,044	32,214	25,400
	104,717	22,657	14,219	141,593	128,118

(c) Interest rate risk

The Group's interest rate risk arises primarily from interest bearing borrowings. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(c) Interest rate risk (Continued)

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period:

	2016		2015	
	Effective interest rate		Effective interest rate	
	%	RMB'000	%	RMB'000
Fixed rate borrowings:				
Bank loan	**5.70%**	**40,000**	5.87%	30,000
Other loan	**17.09%**	**13,457**	17.09%	20,627
Finance lease liabilities	**19.30%**	**11,757**	17.30%	25,400
		65,214		76,027

No sensitivity analysis was performed for the years ended 31 December 2016 and 2015, as the Group's fixed rate borrowings do not expose the Group to cash flow interest rate risk.

(d) Currency risk

The Group is exposed to currency risk primarily through cash balances denominated in a currency other than the functional currency of the operations to which the transactions relate. The currency giving rise to this risk is primarily RMB.

The Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rates at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	2016	2015
	RMB'000	RMB'000
Cash and cash equivalents	**13**	4,674

(Expressed in RMB unless otherwise indicated)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Currency risk (Continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax and retained profits that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2016		2015	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in profit after tax and retained profits**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits
		RMB'000		RMB'000
RMB	**5%**	**1**	5%	234
	(5%)	**(1)**	(5%)	(234)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and retained profits measured in their respective functional currencies, translated into RMB at the exchange rates ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency, which depends on the foreign currencies the Group is exposed to, may or may not have an effect on the Group's net assets.

(e) Fair values

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

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

(Expressed in RMB unless otherwise indicated)

30 COMMITMENTS

(a) Capital commitments

At 31 December 2016, the outstanding capital commitments of the Group not provided for the consolidated financial statements were summarised as follows:

	At 31 December 2016 RMB' 000	At 31 December 2015 RMB' 000
Commitments in respect of buildings, and machinery and equipment		
– Contracted for	**–**	4,950
– Authorised but not contracted for	**–**	53,108
	–	58,058

(b) Operating lease commitments

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 RMB' 000	2015 RMB' 000
Within 1 year	**233**	336

31 CONTINGENT LIABILITIES

At 31 December 2016, the Group has the following guarantees:

	2016 RMB' 000	2015 RMB' 000
Guarantee for bank loan of a third party supplier	**16,000**	22,300
Guarantee for bank loan of a third party customer	**16,000**	20,000
	32,000	42,300

Further details of the guarantees are set out in Note 19(i).

(Expressed in RMB unless otherwise indicated)

32 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Interests in subsidiaries		**259,100**	246,913
Current assets			
Prepayments and other receivables		**17,891**	16,756
Cash and cash equivalents		**314**	1,860
		18,205	18,616
Current liabilities			
Accrued expenses and other payables		**723**	677
Net current assets		**17,482**	17,939
NET ASSETS		**276,582**	264,852
CAPITAL AND RESERVES	27(a)		
Share capital		**7,921**	7,921
Reserves		**268,661**	256,931
TOTAL EQUITY		**276,582**	264,852

Approved and authorised for issue by the board of directors on 24 March 2017.

Yim Tsun	**Li Li**
Director	*Director*

(Expressed in RMB unless otherwise indicated)

33 IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors of the Company consider the immediate and ultimate holding company of the Company at 31 December 2016 to be Brilliant Plan Holdings Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

34 POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 7, *Statement of Cash flows: Disclosure initiative*	1 January 2017
Amendments to IAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
Amendments to IAS 40, *Transfers of investment property*	1 January 2018
IFRIC 22, *Foreign currency transactions and advance consideration*	1 January 2018
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
IFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

34 POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

IFRS 9, Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, *Financial instruments: Recognition and measurement*. IFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's consolidated financial statements are as follows:

Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting IFRS 15 on its consolidated financial statements. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in Note 2(r). Currently, revenue arising from the rendering of wood processing procedure service is recognised when the processed wood products are despatched to and accepted by the customers, whereas revenue from the sale of wooden products is generally recognised when the risks and rewards of ownership of the goods have been transferred to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

34 POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

IFRS 15, Revenue from contracts with customers (Continued)

(a) *Timing of revenue recognition* (Continued)

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, it is possible that once the Group adopts IFRS 15 some of the Group's sales of wood panels and rendering of services that are currently recognised at a single point in time may meet the IFRS 15 criteria for revenue recognition over time. This will depend on the terms of the sales and rendering of services contract and the enforceability of any specific performance clauses in that contract, which may vary depending on the jurisdiction in which the contract would be enforced. It is also possible that for the remainder of the Group's contracts the point in time when revenue is recognised may be earlier than under the current accounting policy. However, further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

(Expressed in RMB unless otherwise indicated)

34 POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

IFRS 16, Leases

As disclosed in Note 2(h), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

As disclosed in Note 30(b), at 31 December 2016 the Group's future minimum lease payments under non-cancellable operating leases only amount to RMB233,000 all of which is payable within 12 months. As a result, the adoption of IFRS 16 will have no significant impact on the Group's consolidated financial statements.

The Group is considering whether to adopt IFRS 16 before its effective date of 1 January 2019. However, early adoption of IFRS 16 is only permitted if this is no earlier than the adoption of IFRS 15. It is therefore unlikely that IFRS 16 will be adopted before the effective date of IFRS 15, being 1 January 2018.