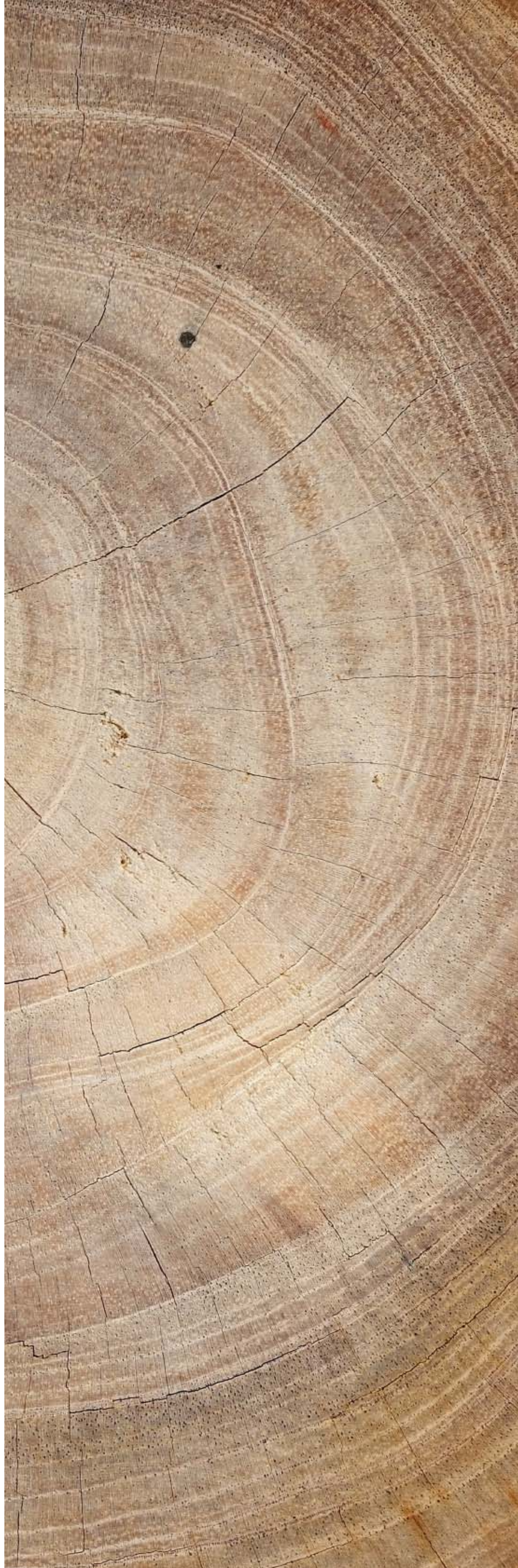
Wood Optimization

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



INTERIM REPORT 2017

For the six months ended 30 June 2017, operating results of the Group were as follows:

— Revenue for the six months ended 30 June 2017 amounted to about RMB104.5 million (2016: RMB294.3 million), representing a substantial decrease of 64.5% as compared to the same period of previous financial year;

— Profit for the six months ended 30 June 2017 amounted to about RMB29.8 million (2016: RMB36.7 million), representing a decrease of 18.8% as compared to the same period of previous financial year;

— Basic and diluted earnings per share for the six months ended 30 June 2017 based on weighted average number of ordinary shares of about 1,000,000,000 shares (2016: 1,000,000,000 shares) in issue was about RMB3.0 cents (2016: RMB3.7 cents); and

— The directors of the Company (the "**Directors**") do not recommend the payment of an interim dividend for the six months ended 30 June 2017 (2016: Nil).

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2017 — unaudited
(Expressed in Renminbi ("**RMB**"))

The board of Directors (the "**Board**") of China Wood Optimization (Holding) Limited (the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2017 together with the comparative unaudited figures for the corresponding period in 2016 as follows:

		Six months ended 30 June	
	Note	**2017**	2016
		RMB'000	RMB'000
Revenue	4	**104,484**	294,326
Cost of sales		**(35,574)**	(218,664)
Gross profit	4	**68,910**	75,662
Other income		**4,981**	3,653
Selling expenses		**(1,152)**	(1,488)
Administrative expenses		**(29,708)**	(27,185)
Profit from operations		**43,031**	50,642
Finance costs	5(a)	**(3,749)**	(4,498)
Profit before taxation	5	**39,282**	46,144
Income tax	6	**(9,469)**	(9,418)
Profit attributable to equity shareholders of the Company for the period		**29,813**	36,726
Earnings per share			
— Basic and diluted (RMB)	7	**0.030**	0.037

The notes on pages 7 to 28 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 21.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2017 — unaudited
(Expressed in RMB)

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Profit for the period	**29,813**	36,726
Other comprehensive income for the period (before and after tax):		
Items that may be reclassified subsequently to profit or loss:		
— Exchange differences on translation into presentation currency	**(409)**	170
Total comprehensive income attributable to equity shareholders of the Company for the period	**29,404**	36,896

The notes on pages 7 to 28 form part of this interim financial report.

Consolidated Statement of Financial Position

At 30 June 2017 — unaudited
(Expressed in RMB)

	Note	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Non-current assets			
Property, plant and equipment	8	**251,079**	313,320
Investment properties	9	**55,581**	6,918
Lease prepayments	10	**54,322**	54,890
Other receivables	13	**4,713**	4,713
Deferred tax assets	20	**8,108**	8,372
		373,803	388,213
Current assets			
Inventories	11	**172,910**	150,698
Trade receivables	12	**12,672**	18,936
Prepayments, deposits and other receivables	13	**15,319**	27,905
Cash and cash equivalents	14	**132,649**	115,817
Time deposits	15	**59,400**	50,000
		392,950	363,356
Current liabilities			
Trade and bills payables	16	**–**	18,721
Receipts in advance		**7,500**	75
Accrued expenses and other payables	17	**18,514**	26,470
Bank and other loans	18(a)	**79,467**	8,629
Obligations under finance lease	19	**6,852**	6,270
Income tax payable		**11,189**	8,794
		123,522	68,959
Net current assets		**269,428**	294,397
Total assets less current liabilities		**643,231**	682,610
Non-current liabilities			
Bank and other loans	18(b)	**–**	44,828
Obligations under finance lease	19	**1,910**	5,487
Deferred income		**31,800**	33,063
Deferred tax liability	20	**–**	1,500
		33,710	84,878
NET ASSETS		**609,521**	597,732
CAPITAL AND RESERVES	21		
Share capital		**7,921**	7,921
Reserves		**601,600**	589,811
TOTAL EQUITY		**609,521**	597,732

The notes on pages 7 to 28 form part of this interim financial report.

Consolidated Statement of Changes In Equity

For the six months ended 30 June 2017 — unaudited
(Expressed in RMB)

	Attributable to equity shareholders of the Company						
	Share capital	Share premium	Other reserve	Statutory reserves	Exchange reserve	Retained profits	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2016	7,921	259,976	30	28,302	4,819	226,355	527,403
Changes in equity for the six months ended 30 June 2016:							
Profit for the period	–	–	–	–	–	36,726	36,726
Other comprehensive income	–	–	–	–	170	–	170
Total comprehensive income	–	–	–	–	170	36,726	36,896
Balance at 30 June 2016 and 1 July 2016	7,921	259,976	30	28,302	4,989	263,081	564,299
Changes in equity for the six months ended 31 December 2016:							
Profit for the period	–	–	–	–	–	33,467	33,467
Other comprehensive income	–	–	–	–	(34)	–	(34)
Total comprehensive income	–	–	–	–	(34)	33,467	33,433
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
Balance at 1 January 2017	7,921	259,976	30	36,432	4,955	288,418	597,732
Changes in equity for the six months ended 30 June 2017:							
Profit for the period	–	–	–	–	–	29,813	29,813
Other comprehensive income	–	–	–	–	(409)	–	(409)
Total comprehensive income	–	–	–	–	(409)	29,813	29,404
Dividends approved in respect of the previous year (Note 21)	–	(17,615)	–	–	–	–	(17,615)
Balance at 30 June 2017	7,921	242,361	30	36,432	4,546	318,231	609,521

The notes on pages 7 to 28 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2017 — unaudited
(Expressed in RMB)

	Note	Six months ended 30 June	
		2017	2016
		RMB'000	RMB'000
Operating activities			
Cash generated from operations		**41,029**	38,889
Income tax paid		**(8,310)**	(11,002)
Net cash generated from operating activities		**32,719**	27,887
Investing activities			
Payments for purchase of property, plant and equipment		**(9,349)**	(21,987)
Proceeds from disposal of property, plant and equipment		**490**	–
Payments for land use right		**–**	(24,588)
Increase in time deposits	15	**(59,400)**	(45,200)
Decrease in time deposits	15	**50,000**	–
Government grants received		**–**	11,365
Other cash flows arising from investing activities		**902**	847
Net cash used in investing activities		**(17,357)**	(79,563)
Financing activities			
Proceeds from new bank loans		**30,000**	40,000
Repayment of bank and other loans		**(3,990)**	(33,294)
Capital element of finance lease rentals paid		**(2,995)**	(2,774)
Interest element of finance lease rentals paid	19	**(998)**	(1,494)
Dividends paid to the equity shareholders of the Company	21	**(17,615)**	–
Other cash flows arising from financing activities		**(2,801)**	(3,034)
Net cash generated from/(used in) financing activities		**1,601**	(596)
Net increase/(decrease) in cash and cash equivalents		**16,963**	(52,272)
Cash and cash equivalents at 1 January	14	**115,817**	117,312
Effect of foreign exchange rate changes		**(131)**	101
Cash and cash equivalents at 30 June	14	**132,649**	65,141

The notes on pages 7 to 28 form part of this interim financial report.

(Expressed in RMB unless otherwise indicated)

1 CORPORATE INFORMATION

China Wood Optimization (Holding) Limited (the "**Company**") was incorporated in the Cayman Islands on 6 June 2012 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time. The shares of the Company were listed on the Growth Enterprise Market (the "**GEM**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 6 January 2014. The listing of the Company's shares was transferred from the GEM to the Main Board of the Stock Exchange on 12 September 2016. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2017 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 service.

2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with International Accounting Standard ("**IAS**") 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the "**IASB**"). It was authorised for issue on 23 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

(Expressed in RMB unless otherwise indicated)

2 BASIS OF PREPARATION (Continued)

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410 ("**HKSRE 2410**"), *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the board of directors of the Company is included on page 29.

The financial report relating to the financial year ended 31 December 2016 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2016 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 24 March 2017.

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 SEGMENT REPORTING

The Group manages its businesses by products 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. The Group ceased the production and sales of Processed Finger Joint Wood Panels during the first half of 2017. No operating segments have been aggregated to form the following reportable segments.

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

- Sales of Processed Finger Joint Wood Panels: this segment sells wooden 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.

(Expressed in RMB unless otherwise indicated)

4 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 six months ended 30 June 2017 and 2016. 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 is set out below.

	Six months ended 30 June 2017		
	Sales of Processed Wood Panels	**Rendering of Wood Processing Procedure service**	**Total**
	RMB' 000	**RMB' 000**	**RMB' 000**
Revenue from external customers and reportable segment revenue	**10,721**	**93,763**	**104,484**
Reportable segment gross profit	**2,602**	**66,308**	**68,910**

	Six months ended 30 June 2016		
	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	288,650	5,676	294,326
Reportable segment gross profit	74,452	1,210	75,662

(Expressed in RMB unless otherwise indicated)

4 SEGMENT REPORTING (Continued)

(i) Segment results (Continued)

During the second half of 2016, the Group started to render consignment wood processing procedure service to 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 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 PROFIT BEFORE TAXATION

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

(a) Finance costs:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Interest on bank and other loans	**2,702**	2,940
Finance charges on obligations under finance lease	**998**	1,494
Bank charges and other finance costs	**36**	41
Total finance costs	**3,736**	4,475
Net foreign exchange loss	**13**	23
	3,749	4,498

(b) Staff costs:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Salaries, wages and other benefits	**12,141**	11,997
Contributions to defined contribution retirement schemes	**1,332**	1,310
	13,473	13,307

(Expressed in RMB unless otherwise indicated)

5 PROFIT BEFORE TAXATION (Continued)

(c) Other items:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Depreciation and amortisation	**15,288**	12,986
Net loss on disposal of property, plant and equipment	**1,021**	–
Operating lease charges in respect of plant and buildings	**465**	559
Research and development costs (including costs relating to staff costs disclosed in Note 5(b))	**10,689**	10,392
Interest income	**(902)**	(847)
Cost of inventories (Note 11(b))	**35,574**	218,664

6 INCOME TAX

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current taxation:		
— The PRC Corporate Income Tax	**9,205**	12,169
— The PRC Withholding Tax	**1,500**	–
	10,705	12,169
Deferred taxation (Note 20) :		
— Origination and reversal of temporary differences	**264**	(2,751)
— Retained profits to be distributed	**(1,500)**	–
	(1,236)	(2,751)
	9,469	9,418

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

The Company and the subsidiary of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the six months ended 30 June 2017 (six months ended 30 June 2016: 16.5%). No provision for Hong Kong Profits Tax has been made, as neither the Company nor the subsidiary of the Group incorporated in Hong Kong have assessable profits which are subject to Hong Kong Profits Tax for the six months ended 30 June 2017 (six months ended 30 June 2016: RMBNil).

(Expressed in RMB unless otherwise indicated)

6 INCOME TAX (Continued)

The subsidiaries of the Group established in the PRC are subject to the PRC Corporate Income Tax rate of 25% for the six months ended 30 June 2017 (six months ended 30 June 2016: 25%). One of the subsidiaries of the Group established in the PRC obtained an approval from the tax bureauto 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, the PRC subsidiaries of the Group are entitled to an additional tax deductible allowance calculated at 50% of the qualified research and development costs incurred by the PRC subsidiaries.

One of the subsidiaries of the Group established in the PRC declared on 20 March 2017 that its retained profits of 2016 amounting to RMB30,000,000 will be distributed to China Wood Optimization (HK) Limited ("**China Wood HK**"), a subsidiary of the Group established in Hong Kong. In May 2017, the distributed dividend of RMB30,000,000 has been paid to China Wood HK. This distributed dividend of RMB30,000,000 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 amounting to RMB1,500,000 was paid in May 2017 accordingly.

7 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share for the six months ended 30 June 2017 is calculated based on the profit attributable to equity shareholders of the Company of RMB29,813,000 (six months ended 30 June 2016: RMB36,726,000) and the weighted average of 1,000,000,000 ordinary shares (six months ended 30 June 2016: 1,000,000,000 ordinary shares) in issue during the interim period, calculated as follows:

	Six months ended 30 June	
	2017	2016
	'000	'000
Issued ordinary shares at 1 January	**1,000,000**	1,000,000
Weighted average number of ordinary shares at 30 June	**1,000,000**	1,000,000

(b) Diluted earnings per share

There was no difference between basic and diluted earnings per share as the Company did not have any dilutive potential shares outstanding during the six months ended 30 June 2017 and 2016.

(Expressed in RMB unless otherwise indicated)

8 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor Vehicles and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:					
At 1 January 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
Cost:					
At 1 January 2017	229,404	170,184	11,956	758	412,302
Additions	–	1,047	768	838	2,653
Transfer in/(out)	–	1,111	–	(1,111)	–
Reclassification to investment properties (Note 9)	(56,012)	–	–	–	(56,012)
Disposal	–	–	(2,087)	–	(2,087)
At 30 June 2017	173,392	172,342	10,637	485	356,856
Accumulated depreciation:					
At 1 January 2017	(30,394)	(63,114)	(5,474)	–	(98,982)
Charge for the period	(4,919)	(8,531)	(644)	–	(14,094)
Reclassification to investment properties (Note 9)	6,723	–	–	–	6,723
Written back on disposal	–	–	576	–	576
At 30 June 2017	(28,590)	(71,645)	(5,542)	–	(105,777)
Net book value:					
At 30 June 2017	144,802	100,697	5,095	485	251,079

At 30 June 2017, the Group has obtained the ownership certificates for all the properties.

(Expressed in RMB unless otherwise indicated)

8 PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Assets sold and leased back

In September 2015, Hebei AMS Wood Processing Co., Ltd. ("**Hebei AMS**"), one of the subsidiaries of the Group, entered into an arrangement with a financial leasing institution in which Hebei AMS sold certain equipment to this institution at a net consideration of RMB22,163,000 and then leased back with scheduled lease payments together with an option to buy back these equipment at a price of RMB1 when the lease term is expired in September 2018. Such arrangement is accounted for as an interest-bearing borrowing, of which the balance at 30 June 2017 is RMB9,467,000 (31 December 2016: RMB13,457,000), secured by the relevant machinery and equipment, of which the net book value at 30 June 2017 is RMB26,359,000 (31 December 2016: RMB28,631,000). Detailed information of this borrowing is disclosed in Note 18(b)(ii).

(c) Assets held under finance lease

In November 2015, Jiangsu AMS Wood Industry Company Limited ("**Jiangsu AMS**"), one of the subsidiaries of the Group, entered into a finance lease arrangement with a financial leasing institution. The lease term is from November 2015 to November 2018. In April 2016, Jiangsu AMS 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 30 June 2017, the net book value of machinery and equipment held under finance lease is RMB16,311,000 (31 December 2016: RMB17,209,000).

(d) Assets leased out under operating leases

The Group leases out investment properties and a number of items of machinery under operating leases. The leases typically run for an initial period of 2 years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment properties.

At 30 June 2017, the aggregate net book value of the items of machinery leased out is RMB42,262,000 (31 December 2016: RMBNil).

(Expressed in RMB unless otherwise indicated)

8 PROPERTY, PLANT AND EQUIPMENT (Continued)

(d) Assets leased out under operating leases (Continued)

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 1 year	**6,900**	–
After 1 year but within 5 years	**5,750**	–
	12,650	–

9 INVESTMENT PROPERTIES

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Cost:		
At 1 January	**9,783**	9,783
Reclassification from property, plant and equipment (Note 8)	**56,012**	–
At 30 June/31 December	**65,795**	9,783
Accumulated amortisation:		
At 1 January	**(2,865)**	(2,400)
Reclassification from property, plant and equipment (Note 8)	**(6,723)**	–
Charge for the period/year	**(626)**	(465)
At 30 June/31 December	**(10,214)**	(2,865)
Net book value:		
At 30 June/31 December	**55,581**	6,918

Notes:

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

(ii) Investment properties leased out under operating leases

The Group leases out investment properties under operating leases. The leases run for an initial period of 2 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.

(Expressed in RMB unless otherwise indicated)

9 INVESTMENT PROPERTIES (Continued)

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 1 year	**6,106**	1,064
After 1 year but within 5 years	**4,643**	266
	10,749	1,330

10 LEASE PREPAYMENTS

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Cost:		
At 1 January	**57,402**	55,859
Additions	**–**	1,543
At 30 June/31 December	**57,402**	57,402
Accumulated amortisation:		
At 1 January	**(2,512)**	(1,589)
Charge for the period/year	**(568)**	(923)
At 30 June/31 December	**(3,080)**	(2,512)
Net book value:		
At 30 June/31 December	**54,322**	54,890

Lease prepayments represented land use right premiums paid or to be paid by the Group for land situated in the PRC, with a lease period of 50 years. At 30 June 2017, the Group has obtained the ownership certificates for all the land use rights.

(Expressed in RMB unless otherwise indicated)

11 INVENTORIES

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Raw materials	**1,383**	45,862
Work in progress	**46**	18,688
Finished goods	**171,481**	86,148
	172,910	150,698

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

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Carrying amount of inventories sold	**35,574**	218,664

12 TRADE RECEIVABLES

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Trade receivables from third parties	**12,672**	18,936

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.

(Expressed in RMB unless otherwise indicated)

12 TRADE RECEIVABLES (Continued)

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Aged within 1 month, neither past due nor impaired	**12,642**	11,896
Aged from 1 to 2 months, neither past due nor impaired	**30**	7,040
	12,672	18,936

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

13 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Prepayments for purchase of inventories	**11,827**	20,258
Prepaid value added tax	**–**	3,759
Others	**3,492**	3,888
Short-term prepayment, deposits and other receivables	**15,319**	27,905
Add: long-term other receivables		
Deposits for other loan and obligations under finance lease	**4,713**	4,713
	20,032	32,618

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

14 CASH AND CASH EQUIVALENTS

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Cash at bank and on hand	**132,649**	115,817

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

15 TIME DEPOSITS

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Pledged time deposits with original maturity over 3 months (Notes (i) and (ii))	**–**	50,000
Other time deposits with original maturity over 3 months	**59,400**	–
	59,400	50,000

Notes:

(i) At 31 December 2016, time deposit of RMB16,000,000 has been pledged for a bank loan of a third party customer of Hebei AMS amounting to RMB15,000,000. This bank loan was expired and repaid by the borrower in April 2017 and as a result the pledge has been released at the same time.

At 31 December 2016, time deposit of RMB16,000,000 has been pledged for a bank loan of a third party supplier of Hebei AMS amounting to RMB15,000,000. 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 pledges for bank loans constitute issuance of guarantees to third parties. Further details are set out in Note 25.

(ii) At 31 December 2016, time deposits of RMB18,000,000 have been pledged for issuance of bills of the Group. The pledged time deposits of RMB18,000,000 as at 31 December 2016 for issuance of bills of the Group have been released during the six months ended 30 June 2017 due to the repayment of these bills.

16 TRADE AND BILLS PAYABLES

	At 30 June 2017 RMB'000	At 31 December 2016 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:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Due within 1 month or on demand	–	721
Due within 1 to 3 months	–	18,000
	–	18,721

17 ACCRUED EXPENSES AND OTHER PAYABLES

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Payables for construction and purchase of property, plant and equipment	**6,856**	13,552
Payables for staff related costs	**4,196**	6,197
Payables for miscellaneous taxes	**1,995**	1,301
Payables for interest expenses	–	63
Others	**2,939**	2,829
Financial liabilities measured at amortised cost	**15,986**	23,942
Deferred income	**2,528**	2,528
	18,514	26,470

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

18 BANK AND OTHER LOANS

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Short-term bank loan:		
— secured (Note (i))	**30,000**	–
Add: current portion of long-term bank and other loans (Note 18(b))	**49,467**	8,629
	79,467	8,629

Note (i): At 30 June 2017, 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 RMB62,070,000 (31 December 2016: RMBNil).

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Long-term bank loan		
— secured and guaranteed (Note (i))	**40,000**	40,000
Long-term other loan from a financial leasing institution		
— secured (Note (ii))	**9,467**	13,457
	49,467	53,457
Less: current portion of long-term bank and other loans (Note 18(a))	**(49,467)**	(8,629)
	–	44,828

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 1 year or on demand	**49,467**	8,629
After 1 year but within 2 years	**–**	44,828
	49,467	53,457

(Expressed in RMB unless otherwise indicated)

18 BANK AND OTHER LOANS (Continued)

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

Notes:

(i) The long-term bank loan as at 30 June 2017 was secured by certain property, plant and equipment, investment properties and land use right of the Group and guaranteed by a key management personnel of the Group.

At 30 June 2017, 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 RMB59,662,000 (31 December 2016: RMB61,353,000).

(ii) At 30 June 2017, the aggregate carrying value of the secured property, plant and equipment of the Group for the long-term other loan is RMB26,359,000 (31 December 2016: RMB28,631,000).

(c) At 30 June 2017, the Group's banking loan facilities amounting to RMB130,000,000 (31 December 2016: RMB80,000,000) were utilised to the extent of RMB70,000,000 (31 December 2016: RMB40,000,000).

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

19 OBLIGATIONS UNDER FINANCE LEASE

The Group had obligations under finance lease repayable as follows:

	At 30 June 2017		At 31 December 2016	
	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	**6,852**	**7,987**	6,270	7,987
After 1 year but within 2 years	**1,910**	**1,997**	5,487	5,990
	8,762	**9,984**	11,757	13,977
Less: Total future finance charges		**(1,222)**		(2,220)
Present value of lease obligations		**8,762**		11,757

(Expressed in RMB unless otherwise indicated)

20 DEFERRED TAX ASSETS AND LIABILITIES

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

Deferred tax arising from:	Assets — Accrued expenses, 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 2016	919	(55)	–	864
Credited/(charged) to the consolidated statement of profit or loss	7,496	12	(1,500)	6,008
At 31 December 2016	8,415	(43)	(1,500)	6,872
(Charged)/credited to the consolidated statement of profit or loss (Note 6)	(270)	6	1,500	1,236
At 30 June 2017	8,145	(37)	–	8,108

(Expressed in RMB unless otherwise indicated)

21 CAPITAL, RESERVE AND DIVIDENDS

(a) Dividends

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

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB Nil).

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK$0.02 per ordinary share (six months ended 30 June 2016: HK$Nil per ordinary share)	**17,615**	–

22 MATERIAL RELATED PARTY TRANSACTIONS

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

Key management personnel remuneration

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Short-term employee benefits	**1,652**	1,484
Retirement schemes contributions	**67**	61
	1,719	1,545

(Expressed in RMB unless otherwise indicated)

23 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The Group does not have any financial instruments measured at fair value at 30 June 2017 and 31 December 2016.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 30 June 2017 and 31 December 2016.

24 COMMITMENTS

(a) Capital commitments

At 30 June 2017, there is no outstanding capital commitments of the Group not provided for in the interim financial report.

(b) Operating lease commitments

At 30 June 2017, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	At 30 June 2017	At 31 December 2016
	RMB'000	RMB'000
Within 1 year	**731**	233
After 1 year but within 2 years	**674**	–
	1,405	233

25 CONTINGENT LIABILITIES

At 30 June 2017, the Group has the following guarantees:

	At 30 June 2017	At 31 December 2016
	RMB'000	RMB'000
Guarantee for bank loan of a third party supplier	**–**	16,000
Guarantee for bank loan of a third party customer	**–**	16,000
	–	32,000

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

26 POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2017

A number of amendments and new standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group has the following updates to the information provided in the last annual financial statements about the possible impacts of the new standards issued but not yet effective which may have a significant impact on the Group's consolidated financial statements.

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. The Group has decided not to adopt IFRS 9 until it becomes mandatory on 1 January 2018. 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.

The adoption of IFRS 9 is unlikely to have a significant impact on the Group's financial instruments.

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

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.

26 POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2017 (Continued)

IFRS 15, Revenue from contracts with customers (Continued)

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:

(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.

The Group has completed an initial assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements.

The adoption of IFRS 15 is unlikely to have a significant impact on the Group's timing of revenue recognition.

IFRS 16, Leases

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.

(Expressed in RMB unless otherwise indicated)

26 POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2017 (Continued)

IFRS 16, Leases (Continued)

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in Note 24(b), at 30 June 2017 the Group's future minimum lease payments under non-cancellable operating leases only amount to RMB1,405,000 for properties, all of which is payable within 12 months or after 1 year but within 2 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted.

The Group has started an initial assessment of the potential impact on its consolidated financial statements. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of properties. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. No significant impact is expected for the Group's finance leases.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group has decided not to early adopt IFRS 16 in its 2018 consolidated financial statements.

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

INTRODUCTION

We have reviewed the interim financial report set out on pages 2 to 28 which comprises the consolidated statement of financial position of China Wood Optimization (Holding) Limited as at 30 June 2017 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

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

23 August 2017

BUSINESS REVIEW

For the six months ended 30 June 2017, the Group continued the business of processing, manufacturing and sale of less-shaved Processed Wood Panels (as defined below) and to provide Wood Processing Procedure service (as defined below) to customers who carry out purchasing of raw wood panels, and can choose to conduct the drying, shaving and cutting processes at their own facilities or elsewhere. The Group provides the service to customers for their poplar wood panels at a fee. As the impregnation fluid and Wood Processing Procedure of the Group contain its core technologies, the Group believes the service can highlight its intrinsic value and exceptional expertise, and will yield a gross profit margin higher than that of less-shaved Processed Wood Panels in the future.

The Group uses a self-developed processing procedure ("**Wood Processing Procedure**") and a self-developed impregnation fluid made with biological synthetic resin technologies for less-shaved Processed Wood Panels. This procedure is applied to poplars, a fast growing tree species with a growth cycle of about seven to ten years, which is relatively shorter than typical tree species used by the construction industry. The poplars can withstand long, cold winters and short summers, and its supply in the PRC is relatively abundant and stable. The Group's Wood Processing Procedure can help 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 pattern will also be preserved in the end-products. After the Group's Wood Processing Procedure, these poplar wood panels can be used to substitute natural solid wood panels, hence have wide application in furniture making and indoor furnishing.

Processed Wood Panels

The Group's principal products are Processed Wood Panels ("**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 required 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. For the six months ended 30 June 2017, the Group only offered customers less-shaved Processed Wood Panels, which involve fewer production processes and lower wastage of production materials, as such allow the Group to utilise its production capacity more efficiently. Although 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 sales of products for the following reasons: it is able to (i) enhance production efficiency; (ii) reduce 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. Due to the low gross profit margin of the product, the Group ceased the production and sale of Processed Finger Joint Wood Panels during the six months ended 30 June 2017.

Rendering of Wood Processing Procedure service

The Group provides Wood Processing Procedure service to customers who carry out purchasing of raw wood panels, and can choose to conduct the drying, shaving and cutting processed at their own facilities or elsewhere. The Group provides the service to customers for their raw wood panels at a fee. Since the impregnation fluid is self-developed and the production cycle of Wood Processing Procedure is short, the cost of the service is notably lower than that of Processed Wood Products, it is going to yield a higher gross profit margin in the future than that of Processed Wood Panels.

Recent Development

During the first half of 2017, the Group's factory located in Handan (the "**Handan Factory**"), Hebei Province, was informed by the local government authority to eliminate its 10 tons of coal-fired boiler by end of October 2017 in compliance with the work plan for air pollution control in Beijing, Tianjin and Hebei Province and its surrounding areas in 2017 (《京津冀及周邊地區2017年大氣污染防治工作方案》). In view of this, the Group temporarily ceased the operation of its coal-fired boiler. The Group is considering to build up a 35 tons coal-fired boiler with support from local government to replace the existing 10 tons boiler or other solutions to comply with the air pollution control requirement. However, up to the date of this report, the Group did not come up with a concrete solution.

OUTLOOK

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

Focusing on the rendering of Wood Processing Procedure service, the Group can yield a higher gross profit margin with its core technologies. In addition, the Group is able to lower down working capital occupation and make full use of processing capacity of the Group.

FINANCIAL REVIEW

Revenue

The Group recorded a substantial decrease in revenue by about RMB189.8 million, or 64.5% from about RMB294.3 million for the six months ended 30 June 2016 to about RMB104.5 million for the six months ended 30 June 2017. The substantial decrease in revenue was mainly attributable to the substantial decrease in sales of Processed Wood Panels with the Group started to provide Wood Processing Procedure service, instead of focusing on selling Processed Wood Panels, to customers who can purchase raw wood panels, and can choose to conduct the drying, shaving and cutting by themselves or elsewhere at a lower cost than ours. Moreover, the fee charged for rendering Wood Processing Procedure service is lower than the average selling price of Processed Wood Panels. As a result, revenue derived from sale of Processed Wood Panels decreased substantially by RMB278.0 million, or 96.3% from RMB288.7 million for the six months ended 30 June 2016 to RMB10.7 million for the six months ended 30 June 2017. The substantial decrease in revenue from sale of Processed Wood Panels was partially compensated by the increase in revenue from processing fee charged for the provision of Wood Processing Procedure service which amounted to RMB93.8 million for the six months ended 30 June 2017.

Although the Group recorded a substantial decrease in revenue from Processed Wood Panels, the average selling price of less-shaved Processed Wood Panels increased from RMB3,421/m^3 for the six months ended 30 June 2016 to RMB3,581/m^3 for the six months ended 30 June 2017. The average processing fee charged by the Group for the provision of Wood Processing Procedure service was about RMB1,060/m^3, or RMB1,880 per ton of the impregnation fluid consumed during the Wood Processing Procedure, for the six months ended 30 June 2017. In the future, the customers will provide their raw wood panels to the Group and the Group will only charge processing fee based on the weight of impregnation fluid consumed during the Wood Processing Procedure, since the weight of impregnation fluid consumed varies with the tree species and quality of the wood panels, the arrangement is fair to the Group and customers.

REVENUE BY SEGMENT

Analysis of revenue by segment is as follows:

	Six months ended 30 June					
	2017			2016		
	Volume (m^3)	**RMB'000**	**%**	Volume (m^3)	RMB'000	%
Processed Wood Panels:						
— traditional	**–**	**–**	**–**	1,986	9,844	3.4
— less-shaved	**2,994**	**10,721**	**10.3**	81,501	278,806	94.7
Sub-total	**2,994**	**10,721**	**10.3**	83,487	288,650	98.1
Processed Finger Joint Wood Panels	**–**	**–**	**–**	1,302	5,676	1.9
Processed wood products	**2,994**	**10,721**	**10.3**	84,789	294,326	100.0
Rendering of Wood Processing Procedure service (Note 1)	**88,477**	**93,763**	**89.7**	–	–	–
	91,471	**104,484**	**100.0**	84,789	294,326	100.0

Note 1: The volume of wood panels processed is derived based on our experience and the average measurement results that one ton of impregnation fluid consumed during the Wood Processing Procedure can process an average 12 m^3 of wood panels.

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

	Six months ended 30 June	
	2017	2016
	RMB	RMB
Processed Wood Panels	**3,581**	3,457
— traditional	**–**	4,957
— less-shaved	**3,581**	3,421
Processed Finger Joint Wood Panels	**–**	4,359
Overall average selling price of processed wood products	**3,581**	3,471
Rendering of Wood Processing Procedure service		
— average selling price per cubic meter	**1,060**	–
— average selling price per ton consumed	**1,880**	–

Processed Wood Panels

Revenue from sales of Processed Wood Panels decreased substantially by about RMB278.0 million, or 96.3% from about RMB288.7 million for the six months ended 30 June 2016 to about RMB10.7 million for the six months ended 30 June 2017. The decrease was primarily due to the Group started to provide Wood Processing Procedure service to customers who can purchase raw wood panels and can choose to conduct the drying, shaving and cutting by themselves at a lower cost than ours in the fourth quarter of 2016. These customers provided their raw wood panels to the Group, and the Group only charged a processing fee for the service, which is relatively less than the Group can earn from selling Processed Wood Panels to these customers. As a result, the Group recorded a substantial decrease in revenue from sales of Processed Wood Panels. The sales volume of Processed Wood Panels also decreased substantially, by about 96.4% from about 83,487 m^3 for the six months ended 30 June 2016 to about 2,994 m^3 for the six months ended 30 June 2017.

Processed Finger Joint Wood Panels

Revenue from sales of Processed Finger Joint Wood Panels decreased substantially by about RMB5.7 million for the six months ended 30 June 2017 as compared with the corresponding period in previous year. Since Processed Finger Joint Wood Panels yields a lower gross profit margin than other products of the Group, the Group decided to cease the operation and sale of Processed Finger Joint Wood Panels during the six months ended 30 June 2017.

Rendering of Wood Processing Procedure service

The Group's impregnation fluid and Wood Processing Procedure are its core technologies which are difficult to replicate in a short time. And via providing Wood Processing Procedure service, the Group can reveal its intrinsic value and enjoy a higher gross profit margin from the service than that of Processed Wood Panels. Therefore, the Group enhanced its effort to render Wood Processing Procedure service to customers who can carry out purchase raw wood panels, and can choose to conduct the drying, shaving and cutting by themselves or elsewhere at a lower cost than ours during the six months ended 30 June 2017. The customers provide their raw wood panels to the Group and the Group charged an average processing fee of about RMB1,060/m^3 of the raw wood panels from these customers or RMB1,880 per ton of the impregnation fluid consumed during the Wood Processing Procedure, for the six months ended 30 June 2017. In the future, the Group will only charge processing fee based on the weight of impregnation fluid consumed during the Wood Processing Procedure, since the weight of impregnation fluid consumed varies with the tree species and quality of the wood panels, hence is fair to the Group and customers. The revenue derived from rendering of the service amounted to RMB93.8 million, representing about 89.8% of total revenue of the Group for the six months ended 30 June 2017.

Cost of Sales

Cost of sales of the Group decreased substantially by about RMB183.1 million or 83.7% from about RMB218.7 million for the six months ended 30 June 2016 to about RMB35.6 million for the six months ended 30 June 2017. The decrease was mainly a result of the decrease in the Group's total sales volume of products as discussed under the paragraph headed "Revenue" above.

Gross Profit

Gross profit of the Group decreased by about RMB6.8 million or 8.9% from about RMB75.7 million for the six months ended 30 June 2016 to about RMB68.9 million for the six months ended 30 June 2017. The decrease in gross profit of the Group was mainly attributable to the decrease in sales volume of the Group's Processed Wood Panels as a result of rendering of Wood Processing Procedure service for the six months ended 30 June 2017 as discussed under the paragraph headed "Revenue" above.

GROSS PROFIT MARGIN BY SEGMENT

Overall gross profit margin of the Group increased substantially from about 25.7% for the six months ended 30 June 2016 to about 66.0% for the six months ended 30 June 2017. Such increase was mainly attributable to the rendering of Wood Processing Procedure service which can earn a higher gross profit margin of about 70.7% for the six months ended 30 June 2017 than that of Processed Wood Products of about 25.7% for the six months ended 30 June 2016. In addition, the Group raised the average selling price of less-shaved Processed Wood Panels by about RMB160/m^3 from about RMB3,421/m^3 for the six months ended 30 June 2017 to RMB3,581/m^3 for the six months ended 30 June 2017. However, the overall gross profit margin of the Processed Wood Panels slightly decreased from 25.8% for the six months ended 30 June 2016 to 24.3% for the six months ended 30 June 2017. Such decrease was mainly due to the decrease in production volume of Processed Wood Panels which caused the increase in the unit fixed cost of the Group's Processed Wood Panels. The unit cost of the Group's Processed Wood Panels increased from RMB2,566/m^3 for the six months ended 30 June 2016 to RMB2,712/m^3 for the six months ended 30 June 2017. As a result of the factors mentioned above, the Group recorded a substantial increase in its overall gross profit margin for the six months ended 30 June 2017 as compared to the corresponding period in previous year.

Processed Wood Panels

Gross profit margin of Processed Wood Panels decreased from about 25.8% for the six months ended 30 June 2016 to about 24.3% for the six months ended 30 June 2017. Such decrease was mainly attributable to the increase in unit cost of the Group's less-shaved Processed Wood Panels from about RMB2,551/m^3 for the six months ended 30 June 2016 to about RMB2,712/m^3 for the six months ended 30 June 2017 which reflected mainly the decrease in sales volume of less-shaved Processed Wood Panels with some of the production costs being fixed costs and the decrease in production and sales volume of Processed Wood Panels translating into higher unit cost of sales.

Processed Finger Joint Wood Panels

The Group's Processed Finger Joint Wood Panels have a lower gross profit margin than that of traditional Processed Wood Panels because they are made of cut-offs produced in the manufacturing processes of Processed Wood Panels, hence are in all shapes and sizes. Processing these cut-offs involves more production processes and requires more production materials and labour. Therefore, the average cost of sales per cubic meter of the Processed Finger Joint Wood Panels sold was higher than that of traditional Processed Wood Panels, while their average selling price is in general lower than that of traditional Processed Wood Panels, thus they have a lower gross profit margin. In view of this, the Group ceased production and sale of Processed Finger Joint Wood Panels during the six months ended 30 June 2017.

Rendering of Wood Processing Procedure service

To improve its gross profit margin, the Group enhanced the business of rendering Wood Processing Procedure service to customers who can carry out purchasing of raw wood panels, and can choose to conduct the drying, shaving and cutting by themselves or elsewhere at a lower cost than ours for the six months ended 30 June 2017. These customers provided their raw wood panels to the Group and the Group charged them a processing fee for the service. Since the impregnation fluid used in the process is self-developed and the production cycle of Wood Processing Procedure is short, the production cost of the service is far lower than that of Processed Wood Panels, and that allowed the Group to earn a high gross profit margin of about 70.7% for the six months ended 30 June 2017.

Other Income

Other income mainly comprises rental income, income from government grants and interest income. The Group's other income increased by about RMB1.3 million from about RMB3.7 million for the six months ended 30 June 2016 to about RMB5.0 million for the six months ended 30 June 2017. The increase was mainly due to the increase in income from goverment grants by about RMB1.0 million and the increase in rental income by about RMB1.4 million for the six months ended 30 June 2017 as compared to the corresponding period in previous financial year and was partially offset by the loss on disposal of property, plant and equipment of RMB131.0 million. The subsidiary of the Group established in Jiangsu Province received government grants of about RMB20.4 million from the local government authority for the establishment and operation of the Group's factory located in Huai'an (the "**Huai'an Factory**") in the third quarter of 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 RMB1.0 million for the six months ended 30 June 2017 as compared to the corresponding period in 2016. The Group's rental income increased by RMB1.4 million from RMB0.7 million for the six months ended 30 June 2016 to RMB2.1 million for the six months ended 30 June 2017. The increase in rental income was mainly because of the Group shifting its focus to rendering of Wood Processing Procedure service with a higher profit margin and reduction in working capital occupation. Therefore, the Group has leased these idle facilities and workshops to a supplier and customer during the six months ended 30 June 2017. The increase in other income was partially offset by the loss on disposal of a motor vehicle of about RMB1.0 million. Since the operation of our Hong Kong office is stable and smooth, the Group decided to cut the running cost of motor vehicles and retained one vehicle to serve the operation in Hong Kong.

Selling Expenses

The Group's selling expenses decreased by about RMB0.3 million or 20.0% from about RMB1.5 million for the six months ended 30 June 2016 to about RMB1.2 million for the six months ended 30 June 2017. Such decrease was principally due to the decrease in the marketing and promotion expenses by about RMB163,000 from about RMB245,000 for the six months ended 30 June 2016 to about RMB82,000 for the six months ended 30 June 2017 due to the change of marketing strategy.

Administrative Expenses

The Group's administrative expenses amounted to RMB27.2 million and RMB29.7 million for the six months ended 30 June 2016 and 2017 respectively. The administrative expenses mainly included staff costs, professional fees, depreciation and amortisation charges and research and development expenses. The staff costs increased by RMB0.5 million from RMB4.7 million for the six months ended 30 June 2016 to RMB5.2 million for the six months ended 30 June 2017. Such increase was mainly brought by the full operation of our Huai'an Factory during the six months ended 30 June 2017 as compared to the corresponding period in previous year. Furthermore, due to the scale down of production of less-shaved Processed Wood Panels and the ceased operation of its 10 tons of coal-fired boiler in order to comply with the air pollution control requirement, the Group recorded into administrative expenses an additional depreciation charge of about RMB1.9 million for some idle machineries and workshops. The depreciation and amortisation charges increased by RMB1.2 million from RMB1.3 million for the six months ended 30 June 2016 to RMB2.5 million for the six months ended 30 June 2017 which was mainly due to the full operation of the Huai'an Factory after June 2016. In addition, the increase in staff costs and depreciation and amortisation charges were offset by the decrease in the professional fees by RMB0.9 million from RMB4.3 million for the six months ended 30 June 2016 to RMB3.4 million for the six months ended 30 June 2017. The decrease in professional fees was mainly due to the costs incurred in the first half of 2016 for 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. No such cost was incurred for the six months ended 30 June 2017.

Finance Costs

The Group's finance costs decreased by about RMB0.8 million or 17.8% from about RMB4.5 million for the six months ended 30 June 2016 to about RMB3.7 million for the six months ended 30 June 2017. The decrease was mainly attributable to the decrease in interest expenses of about RMB0.6 million on other long-term loan entered into with a financial leasing institution in the fourth quarter of 2015 for selling some machinery used by the Handan Factory and then leasing back.

Income Tax Expenses

The Group's income tax expenses for the six months ended 30 June 2016 and 2017 were at similar level. However, the effective tax rate for the six months ended 30 June 2017 was 24.1% but it was only 20.4% for the six months ended 30 June 2016. The reason behind is that 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%. Due to the repair and maintenance of certain production facilities of the factory located in Handan, Hebei Province during the six months ended 30 June 2017, the Group's production of less-shaved Processed Wood Panels and the rendering of Wood Processing Procedure service were mainly conducted by the subsidiary located in Huai'an, Jiangsu Province during the six months ended 30 June 2017. Therefore, a higher profit derived from the subsidiary located in Huai'an has to pay a higher income tax rate which resulted in the increase in the effective tax rate.

Profit for the Period

As a combined result of the factors discussed above, the Group's profit for the period decreased from about RMB36.7 million for the six months ended 30 June 2016 to about RMB29.8 million for the six months ended 30 June 2017. However, the Group's net profit margin increased substantially from about 12.5% for the six months ended 30 June 2016 to about 28.5% for the six months ended 30 June 2017. Such increase was mainly due to the increase in the Group's gross profit margin, the increase in other income and the decrease in selling expenses and finance costs which were partially offset by the increase in the administrative expenses for the six months ended 30 June 2017.

LIQUIDITY, FINANCIAL RESOURCES AND TREASURY POLICY

	As at 30 June 2017	As at 31 December 2016
Current ratio	**3.18**	5.27
Gearing ratio*	**0.25**	0.23

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

The current ratio of the Group as at 30 June 2017 was 3.18 times as compared to that of 5.27 times as at 31 December 2016. The decrease in current ratio was mainly due to long term fixed rate bank and other loans of RMB40.8 million as at 31 December 2016 became short-term bank and other loans as at 30 June 2017. In addition, the Group borrowed a fixed rate bank loan of RMB30.0 million during the six months ended 30 June 2017. The Group's gearing ratio as at 30 June 2017 was about 0.25 as compared to that of 0.23 as at 31 December 2016. Such increase was primarily due to a short-term fixed rate bank loan of RMB30.0 million was borrowed during the six months ended 30 June 2017.

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

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

CAPITAL COMMITMENTS

The Group's capital commitments amounted to Nil as at 30 June 2017 (31 December 2016: Nil).

PLEDGE OF ASSETS

At 31 December 2016, time deposit of RMB16,000,000 has been pledged for a bank loan of a third party customer of Hebei AMS amounting to RMB15,000,000. This bank loan was expired and repaid by the borrower in April 2017 and as a result the pledge has been released at the same time.

At 31 December 2016, time deposit of RMB16,000,000 has been pledged for a bank loan of a third party supplier of Hebei AMS amounting to RMB15,000,000. 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.

At 31 December 2016, time deposits of RMB18,000,000 has been pledged for issuance of bills of the Group. The pledged time deposits of RMB18,000,000 as at 31 December 2016 for issuance of bills of the Group has been released during the six months ended 30 June 2017 due to the repayment of these bills.

At 30 June 2017, the Group's property, plant and equipment, investment properties and land use right with a carrying amount of about RMB121.7 million (31 December 2016: RMB61.4 million) were pledged to banks for bank borrowings.

At 30 June 2017, the Group's property, plant and equipment with a carrying amount of about RMB26.4 million (31 December 2016: RMB28.6 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 30 June 2017, the net book value of machinery and equipment held under finance lease is RMB16.3 million (31 December 2016: RMB17.2 million).

CONTINGENT LIABILITY

As at 30 June 2017, the Group provided guarantees for the facilities given by a bank to a customer and a supplier of the Group, both are independent third parties of the Company, for a total amount of Nil (31 December 2016: RMB32.0 million). The banking facilities utilised by the relevant customer and supplier amounted to Nil (31 December 2016: RMB30.0 million).

The Group provided guarantee to one of the Group's customers in 2016 in order to maintain a good relationship with that customer. While the customer had limited ability in obtaining banking facilities, the customer was in need of financing resulting from its business expansion. The Group decided to provide assistance to this customer by providing guarantee for the facilities given by the bank to this customer. The facility has been repaid and the guarantee to this customer has been released in April 2017.

The Group provided guarantee to one of the Group's suppliers in 2016 because the supplier was in need of financing. It is the industry practise for these wood traders to make prepayments to their suppliers. While the supplier had limited ability in obtaining banking facilities, the Group decided to provide assistance to this supplier by providing guarantee for the facilities given by the bank to that supplier. The facility has been repaid and the guarantee to this supplier has been released in March 2017.

MATERIAL ACQUISITIONS OR DISPOSALS

The Group had no material acquisition or disposal of subsidiaries and affiliated companies during the six months ended 30 June 2017.

CAPITAL STRUCTURE

There has been no change in the capital structure of the Group during the six months ended 30 June 2017. The capital of the Group only comprises ordinary shares.

SIGNIFICANT INVESTMENTS

At 30 June 2017, there was no significant investment held by the Group (31 December 2016: Nil).

FOREIGN CURRENCY EXPOSURE

During the six months ended 30 June 2017, the Group's monetary assets and transactions were mainly denominated in RMB and Hong Kong Dollars ("**HK$**"). The management of the Group noted the recent fluctuation in the exchange rate between RMB and HK$, and is of the opinion that it does not currently have a material adverse impact on the Group's financial position. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

EMPLOYEES AND EMOLUMENT POLICY

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

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

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

As at 30 June 2017, the Group employed 350 employees, the total staff costs for the six months ended 30 June 2017 amounted to RMB13.5 million (2016: RMB13.3 million).

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

USE OF PROCEEDS

The net proceeds from the placing of the Company's shares on the GEM on 6 January 2014 (the "**Placing**") were about HK$229.6 million. The use of the net proceeds from the GEM Listing Date to 30 June 2017 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 2016 (Note 1)	Actual use of net proceeds from Placing from the GEM Listing Date to 31 December 2016	Utilised net proceeds from Placing for the six months ended 30 June 2017	Unutilised net proceeds from Placing as at 30 June 2017
	HK$ million (Approximate)	HK$ million (Approximate)	HK$ million (Approximate)	HK$ million (Approximate)
1. Strengthen the Group's research and development capacities	23.0	23.0	–	–
2. Continue to expand the Group's sales network	20.8	17.0	1.3	2.8
3. Expansion of the Group's production capacity	84.4	84.4	–	–
4. Repayment of loans	68.2	68.2	–	–
5. General working capital and other general corporate purposes	33.2	33.2	–	–
Total:	229.6	225.5	1.3	2.8

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

As at 30 June 2017, the Group had an unutilised balance of net proceeds of approximately HK$2.8 million. The Group expects to apply such net proceeds on (i) the operational expenses to be incurred by the Group's sales department and (ii) participation in industry exhibitions and trade fairs.

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

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

As at 30 June 2017, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as follows:

(i) The Company

Name of Director	Capacity/ Nature of Interest	Long/Short position	Number of Shares held	Approximate percentage of shareholding in the Company
Ms. Yim Tsun (Note 1)	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 1: The entire issued share capital of Brilliant Plan Holdings Limited ("**Brilliant Plan**") is beneficially owned by Ms. Yim Tsun who is deemed to be interested in 673,250,000 Shares held by Brilliant Plan under SFO.

Save as disclosed above, as at 30 June 2017, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2017, 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%
Mr. Li Yue	Beneficial Owner	68,250,000	6.82%

Note 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.

Save as disclosed above, as at 30 June 2017, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

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

As at 30 June 2017, none of the Directors, controlling shareholders of the Company or any of their respective close associates had any business or interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2017.

CORPORATE GOVERNANCE PRACTICES

The Board is of the view that the Company has complied with all applicable code provisions set out in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE LISTED ISSUERS

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 the Listing Rules. Specific enquiries have been made with all Directors, who have confirmed that, during the six months ended 30 June 2017, they were in compliance with the required provisions set out in the Model Code. All Directors declared that they have complied with the required standard of dealings as set out in the Model Code throughout the six months ended 30 June 2017.

DIVIDENDS

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2017 (2016: Nil).

DIRECTORS' INTERESTS IN CONTRACTS

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

AUDIT COMMITTEE

The Company has established its audit committee on 20 December 2013 with terms of reference in compliance with the 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 process, risk management and internal control systems of the Group. The audit committee has three members comprising the Company's three independent non-executive Directors, namely Mr. Lau Ying Kit, Mr. Pu Junwen and Mr. Zhang Dali. The chairman of the audit committee is Mr. Lau Ying Kit. The audit committee has reviewed the unaudited consolidated financial statements of the Group for the six months ended 30 June 2017.

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

Hong Kong, 23 August 2017

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

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