AMS 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 2018

Financial Highlights

For the six months ended 30 June 2018, operating results of the Group were as follows:

— Revenue for the six months ended 30 June 2018 amounted to about RMB117.6 million (2017: RMB104.5 million), representing an increase of 12.5% as compared to the same period of previous financial year;

— Profit for the six months ended 30 June 2018 amounted to about RMB24.8 million (2017: RMB29.8 million), representing a decrease of 16.8% as compared to the same period of previous financial year;

— Basic and diluted earnings per share for the six months ended 30 June 2018 based on weighted average number of ordinary shares of about 1,000,000,000 shares (2017: 1,000,000,000 shares) in issue was about RMB2.5 cents (2017: RMB3.0 cents); and

— The directors of the Company (the "**Directors**") do not declare an interim dividend for the six months ended 30 June 2018 (2017: Nil).

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2018 - 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 (collectively, the "**Group**") for the six months ended 30 June 2018 together with the comparative unaudited figures for the corresponding period in 2017 as follows:

		Six months ended 30 June	
		2018	2017
	Note	**RMB'000**	RMB'000
Revenue	4	**117,560**	104,484
Cost of sales		**(61,138)**	(35,574)
Gross profit	4	**56,422**	68,910
Other income		**8,661**	4,981
Selling expenses		**(2,423)**	(1,152)
Administrative expenses		**(31,292)**	(29,708)
Profit from operations		**31,368**	43,031
Finance costs	5(a)	**(1,961)**	(3,749)
Profit before taxation	5	**29,407**	39,282
Income tax	6	**(4,565)**	(9,469)
Profit attributable to equity shareholders of the Company for the period		**24,842**	29,813
Earnings per share			
Basic and diluted (RMB)	7	**0.025**	0.030

The notes on pages 8 to 38 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 22.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018 - unaudited
(Expressed in RMB)

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Profit for the period	**24,842**	29,813
Other comprehensive income for the period (before and after tax):		
Item that may be reclassified subsequently to profit or loss:		
— Exchange differences on translation into presentation currency	**575**	(409)
Total comprehensive income attributable to equity shareholders of the Company for the period	**25,417**	29,404

The notes on pages 8 to 38 form part of this interim financial report.

Consolidated Statement of Financial Position

At 30 June 2018 - unaudited
(Expressed in RMB)

	Note	**At 30 June 2018 RMB'000**	At 31 December 2017 RMB'000
Non-current assets			
Property, plant and equipment	8	**220,740**	231,353
Investment properties	9	**52,456**	54,018
Lease prepayments	10	**53,184**	53,753
Deferred tax assets	21	**7,068**	6,522
		333,448	345,646
Current assets			
Inventories	11	**92,842**	132,890
Trade receivables	12	**29,269**	16,264
Prepayments, deposits and other receivables	13	**22,303**	38,475
Prepaid income tax		**865**	6,072
Cash and cash equivalents	14	**175,949**	131,852
Time deposits	15	**77,100**	96,460
		398,328	422,013
Current liabilities			
Trade payables	16	**2,777**	761
Receipts in advance		**104**	104
Accrued expenses and other payables	17	**23,120**	18,605
Bank and other loans	18(a)	**30,000**	74,828
Obligations under finance lease	19	**1,910**	5,487
		57,911	99,785
Net current assets		**340,417**	322,228
Total assets less current liabilities		**673,865**	667,874

The notes on pages 8 to 38 form part of this interim financial report.

Consolidated Statement of Financial Position

At 30 June 2018 - unaudited
(Expressed in RMB)

	Note	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Non-current liabilities			
Deferred income	20	**29,271**	30,535
Deferred tax liability	21	**—**	1,300
		29,271	31,835
NET ASSETS		**644,594**	636,039
CAPITAL AND RESERVES	22		
Share capital		**7,921**	7,921
Reserves		**636,673**	628,118
TOTAL EQUITY		**644,594**	636,039

The notes on pages 8 to 38 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018 - unaudited
(Expressed in RMB)

	Attributable to equity shareholders of the Company						
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory reserves RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 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 22)	—	(17,615)	—	—	—	—	(17,615)
Balance at 30 June 2017 and 1 July 2017	7,921	242,361	30	36,432	4,546	318,231	609,521
Profit for the period	—	—	—	—	—	26,623	26,623
Other comprehensive income	—	—	—	—	(105)	—	(105)
Total comprehensive income	—	—	—	—	(105)	26,623	26,518
Appropriation to reserves	—	—	—	6,162	—	(6,162)	—
Balance at 31 December 2017	7,921	242,361	30	42,594	4,441	338,692	636,039
Balance at 1 January 2018	7,921	242,361	30	42,594	4,441	338,692	636,039
Changes in equity for the six months ended 30 June 2018:							
Profit for the period	—	—	—	—	—	24,842	24,842
Other comprehensive income	—	—	—	—	575	—	575
Total comprehensive income	—	—	—	—	575	24,842	25,417
Dividends approved in respect of the previous year (Note 22)	—	(16,862)	—	—	—	—	(16,862)
Balance at 30 June 2018	7,921	225,499	30	42,594	5,016	363,534	644,594

The notes on pages 8 to 38 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2018 - unaudited
(Expressed in RMB)

	Note	Six months ended 30 June 2018 RMB'000	2017 RMB'000
Operating activities			
Cash generated from operations		**97,484**	41,029
Income tax paid		**(1,205)**	(8,310)
Net cash generated from operating activities		**96,279**	32,719
Investing activities			
Payments for purchase of property, plant and equipment		**(6,198)**	(9,349)
Proceeds from disposal of property, plant and equipment		**630**	490
Increase in time deposits		**(61,100)**	(59,400)
Decrease in time deposits		**80,460**	50,000
Other cash flows arising from investing activities		**1,173**	902
Net cash generated/(used in) investing activities		**14,965**	(17,357)
Financing activities			
Proceeds from new bank loans		**—**	30,000
Repayment of bank and other loans		**(44,828)**	(3,990)
Capital element of finance lease rentals paid	19	**(3,577)**	(2,995)
Interest element of finance lease rentals paid		**(417)**	(998)
Dividends paid to the equity shareholders of the Company	22	**(16,862)**	(17,615)
Other cash flows arising from financing activities		**(1,565)**	(2,801)
Net cash (used in)/generated from financing activities		**(67,249)**	1,601
Net increase in cash and cash equivalents		**43,995**	16,963
Cash and cash equivalents at 1 January	14	**131,852**	115,817
Effect of foreign exchange rate changes		**102**	(131)
Cash and cash equivalents at 30 June	14	**175,949**	132,649

The notes on pages 8 to 38 form part of this interim financial report.

Notes to the Unaudited 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 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 2018 comprise the Company and its subsidiaries (collectively referred to as the "Group"). The principal activities of the Group are 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 28 August 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 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 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, 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 39.

The financial information relating to the financial year ended 31 December 2017 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 2017 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 28 March 2018.

3 CHANGES IN ACCOUNTING POLICIES

(a) Overview

The IASB has issued a number of new IFRSs and 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:

- IFRS 9, *Financial instruments*
- IFRS 15, *Revenue from contracts with customers*
- IFRIC 22, *Foreign currency transactions and advance consideration*

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

There is no material impact of transition to IFRS 15 and IFRS 9 on retained earnings at 1 January 2018. Details of the changes in accounting policies are discussed in Note 3(b) for IFRS 9 and Note 3(c) for IFRS 15.

(b) IFRS 9, *Financial instruments*

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements.

The transition to IFRS 9 does not have any material impact or retained earnings and reserves and related income tax at 1 January 2018.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

3 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) IFRS 9, *Financial instruments* (Continued)

(i) *Classification of financial assets and financial liabilities*

IFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

— amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

— FVOCI — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

— FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

3 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) IFRS 9, *Financial instruments* (Continued)

(i) *Classification of financial assets and financial liabilities* (Continued)

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The measurement categories for all financial liabilities remain the same, except for financial guarantee contracts.

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within "trade and other payables" at fair value. Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when expected credit losses (ECLs, see Note 3(b)(ii)) on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in Note 3(b)(ii) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

The carrying amounts for all financial liabilities (including financial guarantee contracts) at 1 January 2018 have not been impacted by the initial application of IFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

3 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) IFRS 9, *Financial instruments* (Continued)

(ii) Credit losses

IFRS 9 replaces the "incurred loss" model in IAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to the following items:

— financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables); and

— financial guarantee contracts issued (see Note 3(b)(i)).

Financial assets measured at fair value are not subject to ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls of fixed-rate financial assets and trade and other receivables are discounted using the effective interest rate determined at initial recognition or an approximate thereof where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

3 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) IFRS 9, *Financial instruments* (Continued)

(ii) *Credit losses* (Continued)

Loss allowances for trade and other receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For financial guarantee contracts issued, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this assessment, the Group considers that a default event occurs when the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

3 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) IFRS 9, *Financial instruments* (Continued)

(ii) Credit losses (Continued)

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

3 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) IFRS 9, *Financial instruments* (continued)

(ii) Credit losses (Continued)

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Opening balance adjustment

Based on an assessment, this change in accounting policy does not have any material impact on retained earnings as compared with that recognised under IAS 39 and IAS 37 and no additional ECLs has been recognised by the Group at 1 January 2018.

(iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

— The assessment of the determination of the business model within which a financial is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group):

— If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

3 CHANGES IN ACCOUNTING POLICIES (Continued)

(c) IFRS 15, *Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specified the accounting for construction contracts.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

Timing of revenue recognition

Previously, revenue arising from provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. 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;

C. 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 is considered in determining when the transfer of control occurs.

The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue.

The change in accounting policy had no material impact on opening balances as at 1 January 2018 and the Group's financial results from 2018 onwards.

3 CHANGES IN ACCOUNTING POLICIES (Continued)

(d) IFRIC 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

4 REVENUE AND SEGMENT REPORTING

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products or service lines		
— Sales of Processed Wood Panels	**59,185**	10,721
— Rendering of Wood Processing Procedure Service	**58,375**	93,763
	117,560	104,484

The revenue from Sales of Processed Wood Panels and Rendering of Wood Processing Service are recognised at a point in time upon the acceptance of self-produced and processed wood products by customers.

4 REVENUE AND SEGMENT REPORTING (Continued)

(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 two reportable segments: Sales of Processed 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 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.

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

(i) Segment results

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the six months ended 30 June 2018 and 2017. The Group's other operating expenses, such as selling and administrative expenses, and assets and liabilities, including the sharing of technical know-how, are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income and interest expenses is presented.

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Segment results (Continued)

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

	Six months ended 30 June 2018		
	Sales of Processed Wood Panels RMB'000	Rendering of Wood Processing Procedure Service RMB'000	Total RMB'000
Revenue from external customers and reportable segment revenue	**59,185**	**58,375**	**117,560**
Reportable segment gross profit	**15,171**	**41,251**	**56,422**

	Six months ended 30 June 2017		
	Sales of Processed Wood Panels RMB'000	Rendering of Wood Processing Procedure Service RMB'000	Total 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

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(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	
	2018	2017
	RMB'000	RMB'000
Interest on bank and other loans	**1,368**	2,702
Finance charges on obligations under finance lease	**417**	998
Bank charges and other finance costs	**176**	49
Total finance costs	**1,961**	3,749

(b) Staff costs:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Salaries, wages and other benefits	**7,132**	12,141
Contributions to defined contribution retirement schemes	**713**	1,332
	7,845	13,473

5 PROFIT BEFORE TAXATION (Continued)

(c) Other items:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Depreciation and amortisation	**14,706**	15,288
Net loss on disposal of property, plant and equipment	**425**	1,021
Operating lease charges in respect of plant and buildings	**427**	465
Research and development costs (including costs relating to staff costs disclosed in Note 5(b))	**5,094**	9,948
Interest income	**(1,173)**	(902)
Cost of inventories (Note 11(b))	**61,138**	35,574

6 INCOME TAX

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Current taxation:		
— The PRC Corporate Income Tax	**5,111**	9,205
— The PRC Withholding Tax	**1,300**	1,500
	6,411	10,705
Deferred taxation (Note 21):		
— Origination and reversal of temporary differences	**(546)**	264
— Retained profits to be distributed	**(1,300)**	(1,500)
	(1,846)	(1,236)
	4,565	9,469

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.

6 INCOME TAX (Continued)

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 2018 (six months ended 30 June 2017: 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 2018 (six months ended 30 June 2017: RMBNil).

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 2018 (six months ended 30 June 2017: 25%). One of the subsidiaries of the Group established in the PRC obtained 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 2017 to 2019. The other one of the PRC subsidiaries is in the process of applying the same preferential PRC Corporate Income Tax rate of 15% for a period of three years from 2018 to 2020, whereby the directors of the Company consider this subsidiary has satisfied the conditions of being an advanced and new technology enterprise according to the relevant tax rules and regulations, and therefore adopt 15% as the preferential PRC Corporate Income Tax rate for the six months ended 30 June 2018 (six months ended June 2017: 15%). 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 21 March 2018 that its retained profits of 2017 amounting to RMB26,000,000 will be distributed to China Wood Optimization (HK) Limited ("China Wood HK"), a subsidiary of the Group established in Hong Kong. In May 2018, the distributed dividend of RMB26,000,000 has been paid to China Wood HK. The directors are of the opinion that this distributed dividend of RMB26,000,000 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 RMB1,300,000 was paid in May 2018 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 2018 is calculated based on the profit attributable to equity shareholders of the Company of RMB24,842,000 (six months ended 30 June 2017: RMB29,813,000) and the weighted average of 1,000,000,000 ordinary shares (six months ended 30 June 2017: 1,000,000,000 ordinary shares) in issue during the interim period, calculated as follows:

	Six months ended 30 June	
	2018	2017
	'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 2018 and 2017.

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 2017	229,404	170,184	11,956	758	412,302
Additions	111	2,714	1,253	1,130	5,208
Transfer in/(out)	—	1,111	411	(1,522)	—
Reclassification to investment properties (Note 9)	(56,012)	—	—	—	(56,012)
Disposal	—	(19,396)	(2,102)	—	(21,498)
At 31 December 2017	173,503	154,613	11,518	366	340,000
Accumulated depreciation and impairment losses:					
At 1 January 2017	(30,394)	(63,114)	(5,474)	—	(98,982)
Charge for the period	(8,853)	(17,162)	(1,273)	—	(27,288)
Impairment loss	—	(2,201)	(64)	—	(2,265)
Reclassification to investment properties (Note 9)	6,674	—	—	—	6,674
Written back on disposal	—	12,635	579	—	13,214
At 31 December 2017	(32,573)	(69,842)	(6,232)	—	(108,647)
Net book value:					
At 31 December 2017	140,930	84,771	5,286	366	231,353

8 PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Reconciliation of carrying amount (Continued)

	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 2018	173,503	154,613	11,518	366	340,000
Additions	777	297	1,977	172	3,223
Disposal	—	(2,638)	—	—	(2,638)
At 30 June 2018	174,280	152,272	13,495	538	340,585
Accumulated depreciation and impairment losses:					
At 1 January 2018	(32,573)	(69,842)	(6,232)	—	(108,647)
Charge for the period	(3,997)	(7,393)	(1,185)	—	(12,575)
Written back on disposal	—	1,377	—	—	1,377
At 30 June 2018	(36,570)	(75,858)	(7,417)	—	(119,845)
Net book value:					
At 30 June 2018	137,710	76,414	6,078	538	220,740

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 2018 is RMBNil (31 December 2017: RMB4,828,000), secured by the relevant machinery and equipment, of which the net book value at 30 June 2018 is RMBNil (31 December 2017: RMB23,457,000).

(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 2018, the net book value of machinery and equipment held under finance lease is RMB14,514,000 (31 December 2017: RMB15,412,000).

(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 2018, the aggregate net book value of the items of machinery leased out is RMB37,116,000 (31 December 2017: RMB39,820,000).

9 INVESTMENT PROPERTIES

	2018 RMB'000	2017 RMB'000
Cost:		
At 1 January	**65,795**	9,783
Reclassification from property, plant and equipment (Note 8)	**—**	56,012
At 30 June/31 December	**65,795**	65,795
Accumulated amortisation:		
At 1 January	**(11,777)**	(2,865)
Reclassification from property, plant and equipment (Note 8)	**—**	(6,674)
Charge for the period/year	**(1,562)**	(2,238)
At 30 June/31 December	**(13,339)**	(11,777)
Net book value:		
At 30 June/31 December	**52,456**	54,018

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.

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within 1 year	**10,531**	12,253
After 1 year but within 5 years	**—**	3,849
	10,531	16,102

10 LEASE PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Cost:		
At 1 January/30 June/31 December	**57,402**	57,402
Accumulated amortisation:		
At 1 January	**(3,649)**	(2,512)
Charge for the period/year	**(569)**	(1,137)
At 30 June/31 December	**(4,218)**	(3,649)
Net book value:		
At 30 June/31 December	**53,184**	53,753

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.

11 INVENTORIES

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Raw materials	**4,431**	398
Work in progress	**64**	131
Finished goods	**88,347**	132,361
	92,842	132,890

11 INVENTORIES (Continued)

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Carrying amount of inventories sold	**61,138**	35,574

12 TRADE RECEIVABLES

	At 30 June	At 31 December
	2018	2017
	RMB'000	RMB'000
Trade receivables from third parties	**29,269**	16,264

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

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	At 31 December
	2018	2017
	RMB'000	RMB'000
Aged within 1 month, neither past due nor impaired	**29,269**	16,264

The loss allowance provision for these balances was not material.

13 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Prepayments for purchase of inventories	**12,120**	30,460
Deposits for other loan and obligations under finance lease	**4,713**	4,713
Others	**5,470**	3,302
	22,303	38,475

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 2018 RMB'000	At 31 December 2017 RMB'000
Cash at bank and on hand	**175,949**	131,852

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 2018 RMB'000	At 31 December 2017 RMB'000
Pledged time deposits with original maturity over 3 months (Note (i))	**31,600**	50,760
Other time deposits with original maturity over 3 months	**45,500**	45,700
	77,100	96,460

Note:

(i) At 30 June 2018, time deposit of RMB31,600,000 (31 December 2017: RMB50,760,000) has been pledged for a bank loan of a third party supplier of Hebei AMS amounting to RMB30,000,000 (31 December 2017: RMB48,000,000). This bank loan will be expired in May 2019.

At 31 December 2017, time deposits of RMB50,760,000 have been pledged for bank loans of a third party supplier of the Group amounting to RMB48,000,000. These bank loans were repaid by the borrower in March 2018 and as a result the pledges have 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 26.

16 TRADE PAYABLES

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Trade payables to third parties	**2,777**	761

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Due within 1 month or on demand	**2,777**	761

17 ACCRUED EXPENSES AND OTHER PAYABLES

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Payables for construction and purchase of property, plant and equipment	**2,004**	4,979
Payables for staff related costs	**3,447**	3,784
Payables for interest expenses	**—**	63
Others	**3,759**	3,809
Financial liabilities measured at amortised cost	**9,210**	12,635
Payables for miscellaneous taxes	**8,382**	3,442
Deferred income (Note 20)	**5,528**	2,528
	23,120	18,605

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 2018 RMB'000	At 31 December 2017 RMB'000
Short-term bank loan:		
— secured (Note (i))	**30,000**	30,000
Add: current portion of long-term bank and other loans (Note 18(b))	**—**	44,828
	30,000	74,828

Note:

(i) At 30 June 2018, 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 RMB59,663,000 (31 December 2017: RMB60,867,000).

18 BANK AND OTHER LOANS (Continued)

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Long-term bank loan:		
— secured	—	40,000
Long-term other loan from a financial leasing institution		
— secured	—	4,828
	—	44,828
Less: current portion of long-term bank and other loans (Note 18(a))	—	(44,828)
	—	—

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within 1 year or on demand	—	44,828

(c) At 30 June 2018, the Group's banking loan facilities amounting to RMB50,000,000 (31 December 2017: RMB50,000,000) were utilised to the extent of RMB30,000,000 (31 December 2017: RMB30,000,000).

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

19 OBLIGATIONS UNDER FINANCE LEASE

The Group had obligations under finance lease repayable as follows:

	At 30 June 2018		At 31 December 2017	
	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	**1,910**	**1,996**	5,487	5,990
	1,910	**1,996**	5,487	5,990
Less: Total future finance charges		**(86)**		(503)
Present value of lease obligations		**1,910**		5,487

20 DEFERRED INCOME

	2018 RMB'000	2017 RMB'000
At 1 January	**33,063**	35,591
Addition	**3,000**	—
Credited to profit or loss	**(1,264)**	(2,528)
	34,799	33,063
Less: current portion of deferred income	**(5,528)**	(2,528)
At 30 June/31 December	**29,271**	30,535

Deferred income mainly represents government grants related to construction of property, plant and equipment, as well as research finding related to wood improvement technology and would be recognised on a straight-line basis over the expected useful life of the relevant assets or over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

21 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:

	Assets — Government grants and related amortisation RMB'000	Asset — Unused Tax losses RMB'000	Asset — Financial guarantee contracts issued and amortisation RMB'000	Asset — Impairment loss RMB'000	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 RMB'000	Liabilities — Retained profits to be distributed RMB'000	Net RMB'000
Deferred tax arising from:							
At 1 January 2017	8,415	—	—	—	(43)	(1,500)	6,872
(Charged)/credited to the consolidated statement of profit or loss	(3,459)	1,257	—	340	12	200	(1,650)
At 31 December 2017	4,956	1,257	—	340	(31)	(1,300)	5,222
Credited/(charged) to the consolidated statement of profit or loss (Note 6)	260	238	75	(33)	6	1,300	1,846
At 30 June 2018	5,216	1,495	75	307	(25)	—	7,068

22 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: RMBNil).

(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	
	2018	2017
	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 2017: HK$0.02 per ordinary share)	**16,862**	17,615

23 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	
	2018	2017
	RMB'000	RMB'000
Short-term employee benefits	**1,544**	1,652
Retirement schemes contributions	**70**	67
	1,614	1,719

24 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The Group does not have any financial instruments measured at fair value at 30 June 2018 and 31 December 2017.

25 COMMITMENTS

(a) Capital commitments

At 30 June 2018, the Group has no material outstanding capital commitments.

(b) Operating lease commitments

At 30 June 2018, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within 1 year	**677**	704
After 1 year but within 2 years	**—**	260
	677	964

26 CONTINGENT LIABILITIES

At 30 June 2018, the Group has the following guarantees:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Guarantee for bank loan of a third party supplier (Note (i))	**31,600**	50,760
Guarantee for other loan of a third party customer (Note (ii))	**50,000**	—
	81,600	50,760

Notes:

(i) Further details of this guarantee are set out in Note 15.

(ii) During the six months ended 30 June 2018, the Group provided a corporate guarantee for a long-term other loan of a third party customer of Hebei AMS amounting to RMB50,000,000 (31 December 2017: RMBNil). This other loan will be expired in June 2020.

27 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, Jiangsu AMS entered into a short-term loan contract with Hebei Overseas Listed Equity Investment Fund Co., Ltd. amounting to RMB50,000,000 as a creditor in August 2018. The loan receivable is expected to be settled in August 2019.

28 POSSIBLE IMPACT OF NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2018

A number of amendments and new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. The Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group has the following update to the information provided in the last annual financial statements in respect of IFRS 16, *Leases*.

IFRS 16, *Leases*

As discussed in the 2017 annual financial statements, 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. IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, upon the adoption of IFRS 16, where the Group is the lessee under the lease the Group will be required to account for all leases in a similar way to current finance lease accounting, i.e. recognise and measure a lease asset at the present value of the minimum future lease payments and recognise a corresponding "right-of-use" asset at the commencement date of the lease, subject to practical expedients. IFRS 16 will primarily affect the Group's accounting as a lessee of leases for items of property, plant and equipment which are currently classified as operating leases.

As disclosed in Note 25(b), at 30 June 2018 the Group's future minimum lease payments under non-cancellable operating leases amounted to RMB677,000 for certain leases of office premises, all of which is payable within 12 months after the reporting date.

Upon the initial adoption of IFRS 16 at 1 January 2019, the present value of most of the future minimum lease payments that are payable after 6 months will be recognised as lease liabilities, with corresponding right-of-use assets recognised as non-current assets. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16.

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 1 to 38 which comprises the consolidated statement of financial position of China Wood Optimization (Holding) Limited as at 30 June 2018 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and consolidated 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 2018 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
28 August 2018

BUSINESS REVIEW

For the six months ended 30 June 2018, the Group continued to engage in the sale of its self-produced less-shaved Processed Wood Panels (as defined below), as well as provide Wood Processing Procedure Service (as defined below) to customers who purchase raw poplar wood panels, and can choose to conduct the drying, shaving and cutting processes at their own facilities or elsewhere. The impregnation fluid and Wood Processing Procedure constitute core technologies of the Group and which can highlight the Group's intrinsic value and exceptional expertise. Furthermore, the service yields a higher gross profit margin than less-shaved Processed Wood Panels.

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 less-shaved Processed Wood Panels also have stronger moisture and flame resistance, and the natural wood grain and pattern are able to be preserved in the end products as well. After the Group's Wood Processing Procedure, the poplar wood panels can be used to substitute natural solid wood panels, hence have a wide range of applications in furniture making and indoor furnishings.

Less-shaved Processed Wood Panels

The Group's principal products are less-shaved Processed Wood Panels ("**less-shaved Processed Wood Panels**"). They are made of poplar wood panels that undergo 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 given by customers. Less-shaved Processed Wood Panels are generally used to produce floor planks, doors and furniture.

Rendering of Wood Processing Procedure Service

The Group provides Wood Processing Procedure Service ("**Wood Processing Procedure Service**") 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. 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 less-shaved Processed Wood Panels. It is therefore able to yield a higher gross profit margin than less-shaved Processed Wood Panels.

Recent Developments

In 2017, the Group's factory located in Handan (the "**Handan Factory**"), Hebei Province, the PRC, was informed by local government authorities that it had to dispose of its 10-tonne coal-fired boiler by the end of October 2017, in order to comply 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》) (the "**Air Pollution Control Work Plan**"). As a consequence, the Group ceased operation of its coal-fired boiler to comply with the air pollution control requirement. During the six months ended 30 June 2018, the Group and the local government of Handan City reached a conclusion whereby the local government would assist in the construction of a natural gas pipeline for use by the Handan Factory and support the Group in the construction of a new natural gas boiler that would comply with the Air Pollution Control Work Plan. The Group expects to complete construction of the natural gas boiler and resume operation of the Handan Factory by the end of 2018 if the natural gas supply is stable.

On 8 January 2018, Hebei AMS Wood Processing Co., Ltd. ("**Hebei AMS**"), a wholly-owned subsidiary of the Company, was awarded 國家科學技術進步獎二等獎 (2017 State Science and Technology Improvement Award (Second Class)*) in respect of "基於木材細胞修飾的材質改良與功能化關鍵技術 (Material Modification and Functionalization Technology Based on the Modification of Wood Cell*)" (the "**Award**"). The Award underscores the supreme recognition that the Group enjoys for its ability to research, develop and introduce to the market its technical applications for wood products. The Award also highlights the Group's capacity to make yet another important contribution to the advancement of the modern wood optimization field. Such a contribution can be considered the embodiment of its scientific research excellence and industry influence. The Directors believe that this Award will spur the Group to continue to put into practice its leading environmental protection philosophy and to become a leading enterprise in the wood optimization industry. For details of the Award, please refer to the announcement of the Company dated 10 January 2018.

On 6 February 2018, the Company was officially notified that Jiangsu AMS Wood Industry Company Limited ("**Jiangsu AMS**"), a subsidiary of the Company located in the PRC, had obtained the High and New Technology Enterprise Certificate (the "**Certificate**"). The Certificate is valid for a term of three years ending 31 December 2019. According to the relevant requirements of the Administrative Measures with regard to Recognition of High and New Technology Enterprises (《高新技術企業認定管理辦法》) (the "**Administrative Measures**"), an enterprise which has obtained the High and New Technology Enterprise Qualification is entitled to enjoy preferential tax treatment from the year in which the Certificate is issued. In accordance with the relevant requirements of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》), high and new technology enterprises are entitled to enjoy a preferential tax rate of 15%. The Directors are of the opinion that the relatively low enterprise income tax rate enjoyed by Jiangsu AMS will have a positive impact on the results of the Group's operations. For details of the Certificate obtained, please refer to the announcement of the Company dated 6 February 2018.

In March 2018, the Company participated in the 17th China (Beijing) International Door Industry Exhibition* ("第十七屆中國(北京)國際門業展覽會") in order to expand its market share. On 21 June 2018, the Company provided a corporate guarantee in favor of Hebei Guofu Hengxin Asset Management Co., Ltd.* ("河北國富恒信資產管理有限公司"), which granted a two-year long-term loan in the principal amount of RMB50.0 million to Hebei Kuaiyou Wood Products Manufacturing Co., Ltd.* ("河北快優木製品製造有限公司") ("**Hebei Kuaiyou**"). Hebei Kuaiyou is one of the major customers of the Group, and the provision of the corporate guarantee by the Company could strengthen long-term cooperation between the Group and Hebei Kuaiyou. For details of the provision of corporate guarantee, please refer to the announcement of the Company dated 21 June 2018.

On 10 August 2018, Jiangsu AMS entered into a short-term loan agreement with Hebei Overseas ("河北境外上市股權投資基金有限公司") pursuant to which Jiangsu AMS agreed to lend to Hebei Overseas a one year short-term loan in the principal amount of RMB50.0 million at an interest rate of 10.0% per annum on the loan principal. Since the loan will provide interest income to the Group and the loan's interest rate is higher than the interest rate received by the Group by placing cash deposits with commercial banks in the PRC, the Directors consider the transaction is fair and reasonable and in the interest of the Company and its shareholders as a whole. For details of the provision of loan, please refer to the announcement of the Company dated 10 August 2018.

OUTLOOK

The Group will continue to increase market recognition of its less-shaved Processed Wood Panels and focus on providing Wood Processing Procedure Service to customers in the PRC. To those ends, the Group will hire more research and development specialists to strengthen its expertise and know-how on developing impregnation fluids and Wood Processing Procedure.

By focusing on rendering its Wood Processing Procedure Service, the Group will be able to yield a higher gross profit margin with its core technologies. In addition, the Group will be able to reduce the need for production facilities and make full use of its processing capacity.

FINANCIAL REVIEW

Revenue

The increase in revenue was mainly attributable to the increase in sales of previous years' stock of less-shaved Processed Wood Panels. Since the Air Pollution Control Work Plan became effective after October 2017, certain suppliers of raw poplar wood panels were forced to shut down or relocate their operations due to non-compliance with the Air Pollution Control Work Plan. As a result, certain customers were unable to purchase adequate raw poplar wood panels for the Group to conduct its Wood Processing Procedure. Such customers resorted to purchasing less-shaved Processed Wood Panels from the Group to fill their shortfalls. At the same time, they temporarily provided less raw poplar wood panels for the Group's further processing. As a consequence, revenue from the sale of less-shaved Processed Wood Panels increased, however, revenue from rendering of Wood Processing Procedure Service declined.

REVENUE BY SEGMENT

Analysis of revenue by segment is as follows:

	Six months ended 30 June							
	2018				2017			
	Weight (Ton) (Note 1)	Volume (m^3)	RMB'000	%	Weight (Ton) (Note 1)	Volume (m^3)	RMB'000	%
Less-shaved Processed Wood Panels	—	16,417	59,185	50.3	—	2,994	10,721	10.3
Rendering of Wood Processing Procedure Service	30,932	—	58,375	49.7	49,874	—	93,763	89.7
	30,932	16,417	117,560	100.0	49,874	2,994	104,484	100.0

Note:

1. The Group charges processing fees based on the weight of impregnation fluid consumed during the Wood Processing Procedure.

Analysis of average selling price of the Group's product and service provided are as follows:

	Six months ended 30 June	
	2018 RMB	2017 RMB
Less-shaved Processed Wood Panals — average selling price per cubic meter	3,605	3,581
Rendering of Wood Processing Procedure Service — average selling price per ton consumed	1,887	1,880

Less-shaved Processed Wood Panels

Revenue from sales of less-shaved Processed Wood Panels increased by about RMB48.5 million, or 453.3% from about RMB10.7 million for the six months ended 30 June 2017 to about RMB59.2 million for the six months ended 30 June 2018. The increase was primarily due to the impact of the Air Pollution Control Work Plan as aforementioned. As a result, the Group recorded an increase in revenue from sales of less-shaved Processed Wood Panels. The sales volume of less-shaved Processed Wood Panels also increased by about 448.3% from about 2,994m^3 for the six months ended 30 June 2017 to about 16,417m^3 for the six months ended 30 June 2018.

The average selling price of less-shaved Processed Wood Panels increased slightly from RMB3,581/m^3 for the six months ended 30 June 2017 to RMB3,605/m^3 for the six months ended 30 June 2018.

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. Through 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 less-shaved 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 the Group during the six months ended 30 June 2018. The customers provide their raw wood panels to the Group and the Group charged an average processing fee of about RMB1,887 per ton of the impregnation fluid consumed during the Wood Processing Procedure for the six months ended 30 June 2018, as compared to the average processing fee of RMB1,880 per ton for the six months ended 30 June 2017. As discussed under the paragraph headed "Revenue" above, due to the impact of the Air Pollution Control Work Plan, the Group recorded an increase in revenue from sales of less-shaved Processed Wood Panels but a decrease in revenue from rendering of Wood Processing Procedure Service. As a result, revenue derived from rendering of Wood Processing Procedure Service decreased by about RMB35.4 million or 37.7% from about RMB93.8 million for the six months ended 30 June 2017 to about RMB58.4 million for the six months ended 30 June 2018.

Cost of Sales

Cost of sales of the Group increased substantially by about RMB25.5 million or 71.6% from about RMB35.6 million for the six months ended 30 June 2017 to about RMB61.1 million for the six months ended 30 June 2018. Since the unit cost of sale of less-shaved Processed Wood Panel was higher than that of the rendering of Wood Processing Procedure Service, the increase in sales volume of less-shaved Processed Wood Panels resulted in the increase in total cost of sales of the Group.

Gross Profit

Gross profit of the Group decreased by about RMB12.5 million or 18.1% from about RMB68.9 million for the six months ended 30 June 2017 to about RMB56.4 million for the six months ended 30 June 2018. The decrease in gross profit of the Group was mainly attributable to the decrease in revenue from rendering of Wood Processing Procedure Service for the six months ended 30 June 2018 as discussed under the paragraph headed "Revenue" above.

GROSS PROFIT MARGIN BY SEGMENT

Overall gross profit margin of the Group decreased from about 66.0% for the six months ended 30 June 2017 to about 48.0% for the six months ended 30 June 2018. Such decrease was mainly attributable to the increase in sales of less-shaved Processed Wood Panels which yields a lower gross profit margin of about 25.6% for the six months ended 30 June 2018 than that of rendering of Wood Processing Procedure Service of about 70.7% for the six months ended 30 June 2018.

Less-shaved Processed Wood Panels

Gross profit margin of less-shaved Processed Wood Panels increased from about 24.3% for the six months ended 30 June 2017 to about 25.6% for the six months ended 30 June 2018. Such increase was mainly attributable to the slight increase in average selling price per cubic meter of less-shaved Processed Wood Panels from about RMB3,581/m^3 for the six months ended 30 June 2017 to about RMB3,605/m^3 for the six months ended 30 June 2018.

Rendering of Wood Processing Procedure Service

Gross profit margin of rendering of Wood Processing Procedure Service decreased from about 77.6% for the six months ended 30 June 2017 to about 70.7% for the six months ended 30 June 2018. The decrease was mainly due to the increase in the cost of purchase of raw impregnation fluid.

Other Income

Other income mainly comprises rental income, income from government grants and interest income. The Group's other income increased by about RMB3.7 million from about RMB5.0 million for the six months ended 30 June 2017 to about RMB8.7 million for the six months ended 30 June 2018. The increase was mainly due to the increase in rental income by about RMB3.6 million for the six months ended 30 June 2018 as compared to the corresponding period of previous financial year. The Group's rental income increased by about RMB3.6 million from about RMB2.2 million for the six months ended 30 June 2017 to about RMB5.8 million for the six months ended 30 June 2018. The increase in rental income was mainly because of the Group shifting its focus to rendering of Wood Processing Procedure Service with a higher gross profit margin and reduction in need of production facilities. Therefore, the Group has leased these idle facilities and workshops to one independent supplier and three independent customers since May 2017.

Selling Expenses

The Group's selling expenses increased by about RMB1.2 million or 100.0% from about RMB1.2 million for the six months ended 30 June 2017 to about RMB2.4 million for the six months ended 30 June 2018. Such increased was principally due to the increase in travelling expense and marketing and promotion expenses by about RMB0.8 million from about RMB0.2 million for the six months ended 30 June 2017 to about RMB1.0 million for the six months ended 30 June 2018 as the Group participated in the 17th China (Beijing) International Door Industry Exhibition* ("第十七屆中國(北京)國際門業展覽會") in March 2018.

Administrative Expenses

The Group's administrative expenses increased by about RMB1.6 million or 5.4% from about RMB29.7 million for the six months ended 30 June 2017 to about RMB31.3 million for the six months ended 30 June 2018. The administrative expenses mainly included depreciation and amortisation charges, factory suspension losses, staff costs and research and development expenses. The depreciation and amortisation charges increased by about RMB4.3 million from about RMB2.5 million for the six months ended 30 June 2017 to about RMB6.8 million for the six months ended 30 June 2018. The increase was mainly due to the increase in number of leased factory workshops and machineries since May 2017. The depreciation and amortisation charges of these leased assets were charged to administrative expenses. On the other hand, the temporary ceased operation of the Handan Factory in order to comply with the Air Pollution Control Work Plan had incurred an additional factory suspension losses of about RMB2.7 million from about RMB2.5 million for the six months ended 30 June 2017 to about RMB5.2 million for the six months ended 30 June 2018.

However, the increase in depreciation and amortisation charges and factory suspension losses were partially offset by the decrease in staff costs and research and development expenses. The Group's staff costs decreased by about RMB1.3 million from about RMB5.2 million for the six months ended 30 June 2017 to about RMB3.9 million for the six months ended 30 June 2018. The decrease in staff cost was mainly attributable to the reduction in number of administrative staff because of the factory suspension of the Handan Factory. In addition, the business of rendering of Wood Processing Procedure Service also requires lesser administrative staff than that of production and sale of less-shaved Processed Wood Panels. The research and development expenses decreased by about RMB4.8 million from about RMB10.7 million for the six months ended 30 June 2017 to about RMB5.9 million for the six months ended 30 June 2018. Such decrease was mainly due to the research projects conducted in the first half of 2018 consumed less wood panels and raw impregnation fluids than the projects conducted in the corresponding period of 2017.

Finance Costs

The Group's finance costs decreased by about RMB1.7 million or 46.0% from about RMB3.7 million for the six months ended 30 June 2017 to about RMB2.0 million for the six months ended 30 June 2018. The decrease was mainly attributable to the decrease in interest expenses of about RMB0.9 million on long-term other 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. In addition, due to the repayment of a bank loan amounted to RMB40.0 million during the six months ended 30 June 2018, the Group's bank borrowing interest expenses decreased by about RMB0.4 million from about RMB1.6 million for the six months ended 30 June 2017 to about RMB1.2 million for the six months ended 30 June 2018.

Income Tax Expenses

The Group's income tax expenses decreased by about RMB4.9 million or 51.6% from about RMB9.5 million for the six months ended 30 June 2017 to about RMB4.6 million for the six months ended 30 June 2018. The effective tax rate of the Group also decreased from 24.1% for the six months ended 30 June 2017 to 15.5% for the six months ended 30 June 2018. The decreases in income tax expenses and effective tax rate were mainly due to the fact that Jiangsu AMS has obtained the Certificate which was entitled to the preferential PRC Corporate Income Tax rate of 15% with effect from 2017, which resulted in the decrease in both the income tax expenses and effective tax rate for the six months ended 30 June 2018.

Profit for the Period

As a combined result of the factors discussed above, the Group's profit for the Period decreased from about RMB29.8 million for the six months ended 30 June 2017 to about RMB24.8 million for the six months ended 30 June 2018. The Group's net profit margin also decreased from about 28.5% for the six months ended 30 June 2017 to about 21.1% for the six months ended 30 June 2018. Such decrease was mainly due to the increase in selling expenses and administrative expenses for the six months ended 30 June 2018, which was partially offset by the increase in revenue, other income and the decrease in finance costs and income tax expenses.

LIQUIDITY, FINANCIAL RESOURCES AND TREASURY POLICY

	As at 30 June 2018	As at 31 December 2017
Current ratio	**6.88**	4.23
Gearing ratio*	**0.13**	0.21

* 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 2018 was about 6.88 times as compared to that of about 4.23 times as at 31 December 2017. The gearing ratio as at 30 June 2018 was about 0.13 as compared to that of 0.21 as at 31 December 2017. The increase in current ratio and the decrease in genaring ratio were mainly due to the repayment of bank and other loans and finance lease liabilities of about RMB48.4 million during the six months ended 30 June 2018.

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, cash reserve, bank and other loans and finance lease.

CAPITAL COMMITMENTS

The Group's capital commitments amounted to Nil as at 30 June 2018 (31 December 2017: Nil).

PLEDGE OF ASSETS

At 31 December 2017, time deposits of RMB50,760,000 have been pledged for bank loans of a third party supplier of the Group amounting to RMB48,000,000. These bank loans were repaid by the borrower in March 2018 and as a result the pledges have been released at the same time.

At 30 June 2018, the Group's property, plant and equipment, investment properties and land use right with a carrying amount of about RMB59.7 million (31 December 2017: RMB118.8 million) were pledged to banks for bank borrowings.

At 31 December 2017, the Group's property, plant and equipment with a carrying amount of about RMB23.5 million has been pledged to a financial leasing institution for the long-term other loan, which was reclassified to short-term other loan as at 31 December 2017. This other loan was fully repaid in June 2018.

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 2018, the net book value of machinery and equipment held under finance lease is RMB14.5 million (31 December 2017: RMB15.4 million).

CONTINGENT LIABILITIES

As at 30 June 2018, the Group provided guarantees for the facilities given by a bank to a supplier of the Group, an independent third party of the Company, for a total amount of RMB31.6 million (31 December 2017: RMB50.8 million). The banking facilities utilised by the supplier amounted to RMB30.0 million (31 December 2017: RMB48.0 million).

The Group continued to provide guarantee to one of its suppliers in 2018 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.

During the six months ended 30 June 2018, the Company provided a corporate guarantee for a long-term loan of Hebei Kuaiyou, a major customer of the Group, amounting to RMB50.0 million. This loan will be expired in June 2020 and the guarantee to this customer will be released at the same time. Please refer to the paragraph headed "Recent Development" above for further details.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group had no material acquisitions or disposals of subsidiaries, associates or joint ventures during the six months ended 30 June 2018.

CAPITAL STRUCTURE

There has been no change in the capital structure of the Group during the six months ended 30 June 2018. The capital of the Group only comprises ordinary shares.

SIGNIFICANT INVESTMENTS

There was no significant investment held by the Group as at 30 June 2018 (31 December 2017: Nil).

FOREIGN CURRENCY EXPOSURE

During the six months ended 30 June 2018, 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 2018, the Group employed 157 employees, the total staff costs for the six months ended 30 June 2018 amounted to RMB7.8 million (2017: RMB13.5 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.

Management Discussions and Analysis

USE OF PROCEEDS

The net proceeds from the placing (the "**Placing**") of the Company's shares on the GEM of the Stock Exchange on 6 January 2014 (the "**GEM Listing Date**") were about HK$229.6 million. The use of the net proceeds from the GEM Listing Date to 30 June 2018 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 2017 (Note 1) *HK$ million* *(Approximate)*	Actual use of net proceeds from Placing from the GEM Listing Date to 31 December 2017 *HK$ million* *(Approximate)*	Utilised net proceeds from Placing for the six months ended 30 June 2018 *HK$ million* *(Approximate)*	Unutilised net proceeds from Placing as at 30 June 2018 *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	20.2	0.6	—
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	229.0	0.6	—

Note:

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

As at 30 June 2018, the Group's net proceeds from the Placing had been fully utilised.

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 2018, 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 set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as follows:

(i) The Company

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

(ii) Associated corporation of the Company

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

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

Save as disclosed above, as at 30 June 2018, 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 AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2018, the following persons (other than Directors or chief executives of the Company) were interested in 5% or more of the issued shares 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)	Beneficial Owner	673,250,000	67.3%

Note:

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

Save as disclosed above, as at 30 June 2018, 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 and underlying shares 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 2018, 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 2018.

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 2018.

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 2018, 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 2018.

DIVIDENDS

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2018 (2017: 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 period or at any time during the six months ended 30 June 2018.

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 2018.

EVENT AFTER THE REPORTING PERIOD

On 10 August 2018, Jiangsu AMS entered into a loan agreement with Hebei Overseas pursuant to which Jiangsu AMS agreed to lend to Hebei Overseas a one year short term loan in the principal amount of RMB50.0 million at an interest rate of 10% per annum on the loan principal, which is discussed under the paragraph headed "Recent Development" above.

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

Hong Kong, 28 August 2018

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.

* *For identification purpose only*