China Wood Optimization (Holding) Limited
中國優材(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1885)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2019, operating results of the Group were as follows:

— Revenue reached about RMB211.7 million (2018: RMB247.6 million), representing a decrease of about 14.5% from last year;

— Profit for the year amounted to about RMB70.1 million (2018: RMB69.6 million), representing an increase of about 0.7% from last year;

— Basic and diluted earnings per share for the year based on weighted average number of ordinary shares of 976,151,000 shares (2018: 1,000,000,000 shares) in issue was RMB7.2 cents (2018: RMB7.0 cents); and

— The directors of the Company (the "**Directors**") recommend the payment of a final dividend of Hong Kong Dollar ("HK$") 0.02 per ordinary share for the year ended 31 December 2019 (2018: HK$0.02 per ordinary share).

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The board of Directors (the "**Board**") of China Wood Optimization (Holding) Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**") is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2019 together with the comparative figures for the preceding financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019
(Expressed in Renminbi ("RMB"))

	Note	**2019**	2018
		RMB'000	RMB'000
			(Note)
Revenue	3	**211,655**	247,592
Cost of sales		**(73,298)**	(109,507)
Gross profit	3(b)	**138,357**	138,085
Other income	4	**26,017**	21,768
Selling expenses		**(4,834)**	(4,064)
Administrative expenses		**(67,565)**	(66,647)
Profit from operations		**91,975**	89,142
Finance costs	5(a)	**(3,317)**	(2,887)
Profit before taxation	5	**88,658**	86,255
Income tax	6	**(18,567)**	(16,608)
Profit attributable to equity shareholders of the Company for the year		**70,091**	69,647
Earnings per share			
— Basic and diluted (RMB)	7	**0.072**	0.070

Note:

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2(c).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019
(Expressed in RMB)

	2019 RMB'000	2018 RMB'000 *(Note)*
Profit for the year	**70,091**	69,647
Other comprehensive income for the year (after tax):		
Items that may be reclassified subsequently to profit or loss:		
— Exchange differences on translation of financial statements into presentation currency	**437**	970
Total comprehensive income attributable to equity shareholders of the Company for the year	**70,528**	70,617

Note:

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2(c).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

(Expressed in RMB)

	Note	**2019**	2018
		RMB'000	RMB'000
			(Note)
Non-current assets			
Property, plant and equipment		**162,460**	209,874
Right-of-use assets		**53,319**	—
Investment properties		**72,523**	50,892
Lease prepayments		**—**	52,616
Deferred tax assets	13(b)	**8,969**	7,395
		297,271	320,777
Current assets			
Inventories		**41,011**	69,114
Trade receivables	8	**127,226**	58,984
Prepayments, deposits and other receivables		**86,588**	116,491
Prepaid income tax	13(a)	**2,302**	2,302
Time and restricted deposits	9	**1,516**	117,152
Cash and cash equivalents	10	**203,595**	90,117
		462,238	454,160
Current liabilities			
Trade payables	11	**1,826**	—
Receipts in advance		**1,214**	1,315
Accrued expenses and other payables		**14,540**	17,941
Bank loans		**50,000**	30,000
Lease liabilities	12	**831**	—
Income tax payable	13(a)	**3,391**	4,080
		71,802	53,336
Net current assets		**390,436**	400,824
Total assets less current liabilities		**687,707**	721,601

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019 (Continued)

(Expressed in RMB)

	Note	**2019**	2018
		RMB'000	RMB'000
			(Note)
Non-current liabilities			
Lease liabilities	12	**1,042**	—
Deferred income		**25,479**	28,007
Deferred tax liabilities	13(b)	**3,800**	3,800
		30,321	31,807
NET ASSETS		**657,386**	689,794
CAPITAL AND RESERVES	14		
Share capital		**7,921**	7,921
Reserves		**649,465**	681,873
TOTAL EQUITY		**657,386**	689,794

Note:

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2(c).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

1 CORPORATE INFORMATION

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 principal activities of the Group are sale of wooden products and rendering of Wood Processing Procedure Service.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Group.

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

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

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

(c) Changes in accounting policies

The IASB has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, *Leases*

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases — incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and the initial adoption of IFRS 16 does not have a material impact on the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

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

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting and transitional impact

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to an office premise located in Hong Kong.

To ease the transition to IFRS 16, the Group applied certain recognition exemption and practical expedients at the date of initial application of IFRS 16. The Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019. As at 1 January 2019, the Group entered into only one lease of an office premise with the lease term ended within one year. As a result, the adoption of the IFRS 16 does not have a material impact on the consolidated financial statements of the Group as at 1 January 2019.

The following table reconciles the operating lease commitments of the Group as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019
	RMB'000
Operating lease commitments at 31 December 2018	**272**
Less: commitments relating to leases exempt from capitalisation:	
— a short-term lease with remaining lease term ending on or before 31 December 2019	**(272)**
Present value of remaining lease payments and total lease liabilities recognised at 1 January 2019	**—**

So far as the impact of the adoption of IFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of IFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset. The Group previously classified the payments made on the acquisition of land held under an operating lease as "Lease prepayments". The amortised carrying amount of "Lease prepayments" now is also identified as a right-of-use asset. Above reclassification has no impact on the opening balance of equity.

The Group presents right-of-use assets that do not meet the definition of investment property in "right-of-use assets" and presents lease liabilities separately in the consolidated statement of financial position.

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 RMB'000	Impact on initial application of IFRS 16 RMB'000	Carrying amount at 1 January 2019 RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:			
Lease prepayments	52,616	(52,616)	—
Right-of-use assets	—	52,616	52,616
Total non-current assets	**320,777**	**—**	**320,777**
Lease liabilities	—	—	—
Net assets	**689,794**	**—**	**689,794**

(iii) Impact on the financial result and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liabilities, and the depreciation of the right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations and a negative impact on the reported profit before taxation in the Group's consolidated statement of profit or loss, as compared to the results if IAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement (see Note 10(b)).

The following tables may give an indication of the estimated impact of the adoption of IFRS 16 on the Group's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under IFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply in 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

	2019				2018
	Amounts reported under IFRS 16 (A) RMB'000	Add back: IFRS 16 depreciation and interest expense (B) RMB'000	Deduct: Estimated amounts related to operating leases as if under IAS 17 (Note (i)) (C) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 (D=A+B-C) RMB'000	Compared to amounts reported for 2018 under IAS 17 RMB'000
Financial result for year ended 31 December 2019 impacted by the adoption of IFRS 16:					
Profit from operations	**91,975**	**520**	**(559)**	**91,936**	**89,142**
Finance costs	(3,317)	71	—	(3,246)	(2,887)
Profit before taxation	**88,658**	**591**	**(559)**	**88,690**	**86,255**
Profit for the year	**70,091**	**591**	**(559)**	**70,123**	**69,647**

	2019			2018
	Amounts reported under IFRS 16 (A)	Estimated amounts related to operating leases as if under IAS 17 (Notes (i) & (ii)) (B)	Hypothetical amounts for 2019 as if under IAS 17 (C=A-B)	Compared to amounts reported under IAS 17
	RMB'000	RMB'000	RMB'000	RMB'000
Line items in the consolidated cash flow statement for year ended 31 December 2019 impacted by the adoption of IFRS 16:				
Cash generated from operations	67,612	(559)	67,053	138,089
Net cash generated from operating activities	**46,782**	**(559)**	**46,223**	**130,958**
Capital element of lease rentals paid	(488)	488	—	(5,487)
Interest element of lease rentals paid	(71)	71	—	(503)
Net cash used in financing activities	**(86,079)**	**559**	**(85,520)**	**(70,124)**

Note (i): The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note (ii): In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

(iv) Leasehold investment properties

Under IFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("leasehold investment properties"). The adoption of IFRS 16 does not have a significant impact on the Group's financial statements as the Group previously elected to apply IAS 40, *Investment properties*, to account for all of its leasehold properties that were held for investment purposes as at 31 December 2018. Consequentially, these leasehold investment properties continue to be stated at cost less accumulated depreciation and impairment loss.

(v) Lessor accounting

In addition to leasing out the investment properties referred to in paragraph (iv) above, the Group leases out a number of items of machinery as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under IAS 17.

3 REVENUE AND SEGMENT REPORTING

(a) Disaggregation of revenue

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

	2019	2018
	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	**30,921**	92,924
— Rendering of Wood Processing Procedure Service	**180,734**	154,668
	211,655	247,592

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographical market is disclosed in Notes 3(b)(i) and 3(b)(ii).

The Group's customer base is diversified and includes one customer group and one customer with whom transactions have exceeded 10% of the Group's revenue for the year ended 31 December 2019 (2018: one customer group). In 2019, revenue to these customers, amounted to approximately RMB157,650,000 (2018: RMB164,135,000).

(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 for the year ended 31 December 2019. No operating segments have been aggregated to form the following reportable segments.

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

- 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, assets and liabilities

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the years ended 31 December 2019 and 2018. Assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured. The Group's other operating income and expenses, such as other income and selling and administrative expenses, and assets and liabilities 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.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2019 and 2018 is set out below.

	2019		
	Sales of Processed Wood Panels RMB'000	**Rendering of Wood Processing Procedure Service RMB'000**	**Total RMB'000**
Revenue from external customers recognised at a point in time	**30,921**	**180,734**	**211,655**
Reportable segment gross profit	**6,536**	**131,821**	**138,357**

	2018		
	Sales of Processed Wood Panels RMB'000	Rendering of Wood Processing Procedure Service RMB'000	Total RMB'000
Revenue from external customers recognised at a point in time	92,924	154,668	247,592
Reportable segment gross profit	23,857	114,228	138,085

(ii) Geographic information

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

4 OTHER INCOME

	2019	2018
	RMB'000	RMB'000
Interest income	**9,627**	4,822
Government grants	**3,162**	5,001
Rental income from operating leases	**13,689**	11,698
Financial guarantee contracts issued	**268**	131
Net gain from sale of materials	**1,513**	116
Net loss on disposal of property, plant and equipment	**(2,242)**	—
	26,017	21,768

5 PROFIT BEFORE TAXATION

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

(a) Finance costs:

	2019	2018
	RMB'000	RMB'000
Interest on bank loans	**2,581**	2,138
Interest on lease liabilities	**71**	—
Interest on obligations under finance lease	—	503
Bank charges and other costs	**665**	246
Total finance costs	**3,317**	2,887

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2(c).

No borrowing costs have been capitalised for the year ended 31 December 2019 (2018: RMBNil).

(b) Staff costs#:

	2019	2018
	RMB'000	RMB'000
Salaries, wages and other benefits	**16,372**	14,220
Contributions to defined contribution retirement schemes	**1,519**	1,447
	17,891	15,667

The employees of the subsidiaries of the Group established in the PRC (other than Hong Kong) participate in defined contribution retirement benefit schemes managed by the local government authority. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC (other than Hong Kong), from the above mentioned retirement schemes at their normal retirement age.

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

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

(c) Other items:

	2019	2018
	RMB'000	RMB'000
Depreciation and amortisation#	**28,651**	29,305
— property, plant and equipment	**23,522**	25,042
— investment properties	**3,471**	3,126
— lease prepayments*	**—**	1,137
— right-of-use assets*	**1,658**	—
Operating lease charges of short-term leases*	**484**	889
Auditors' remuneration:		
— audit and review services	**3,235**	3,236
Research and development costs (including costs relating to staff costs disclosed in *Note 5(b)*)	**12,009**	11,494
Cost of inventories#	**61,354**	100,421

* The Group has initially applied IFRS 16 using the modified retrospective approach and recognised right-of-use assets at 1 January 2019 relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the amortised carrying amount of payments made on the acquisition of land held under an operating lease as "Lease prepayments" now is identified as a right-of-use asset (see Note 2(c)(ii)).

The Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated (see Note 2(c)).

Operating lease charges in 2019 represents the lease payments for short-term leases.

\# Cost of inventories includes RMB2,141,000 for the year ended 31 December 2019 (2018: RMB6,063,000), relating to staff costs and depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in Note 5(b) for each of these types of expenses.

6 INCOME TAX

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

	2019	2018
	RMB'000	RMB'000
Current taxation *(Note 13(a))*:		
— Provision for the year	**20,141**	14,981
Deferred taxation *(Note 13(b))*:		
— Origination and reversal of temporary differences	**(5,374)**	(2,173)
— Withholding tax in connection with the retained profits to be distributed by subsidiaries of the Group	**3,800**	3,800
	(1,574)	1,627
	18,567	16,608

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

	2019	2018
	RMB'000	RMB'000
Profit before taxation	**88,658**	86,255
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned *(Notes (i), (ii) and (iii))*	**22,800**	22,110
Tax effect of non-deductible expenses	**1,429**	1,324
Tax concessions *(Note (iv))*	**(11,462)**	(10,626)
Withholding tax in connection with the retained profits distributed or to be distributed by subsidiaries of the Group *(Note (v))*	**5,800**	3,800
Income tax	**18,567**	16,608

Notes:

(i) 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.

(ii) The Company and the subsidiaries of the Group incorporated in the British Virgin Islands and Hong Kong, respectively, are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2019 (2018: 16.5%). No provision for Hong Kong Profits Tax has been made, as these companies have no assessable profits which are subject to Hong Kong Profits Tax for the year ended 31 December 2019 (2018: RMBNil).

(iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to the PRC Corporate Income Tax rate of 25% for the year ended 31 December 2019 (2018: 25%).

(iv) 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, these subsidiaries are entitled to a preferential PRC Corporate Income Tax rate of 15% for the three years ended 31 December 2019 or ending 31 December 2020. In addition to the preferential PRC Corporate Income Tax rate, these subsidiaries are also entitled to an additional tax deductible allowance calculated at 75% (2018: 75%) of the qualified research and development costs incurred by these subsidiaries.

(v) One of the subsidiaries of the Group established in the PRC declared on 16 March 2020 that RMB76,000,000 current profits will be distributed to China Wood Optimization (HK) Limited. The directors are of the opinion that these dividends of RMB76,000,000 are subject to PRC withholding tax rate of 5% according to the Sino-Hong Kong Double Tax Arrangement and the relevant regulations. As a result deferred tax liabilities of RMB3,800,000 have been provided as at 31 December 2019 accordingly.

Excluding the above RMB76,000,000, the rest taxable temporary differences relating to the undistributed retained profits of the subsidiaries of the Group established in the PRC amounted to RMB245,937,000 at 31 December 2019 (31 December 2018: RMB287,295,000), where deferred tax liabilities in respect of the PRC withholding tax that would be payable on the distributions of these profits have not been recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

7 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share for the year ended 31 December 2019 is calculated based on the profit attributable to the equity shareholders of the Company of RMB70,091,000 (2018: RMB69,647,000) and the weighted average of 976,151,000 ordinary shares (2018: 1,000,000,000 ordinary shares) in issue during the year, calculated as follows:

	2019	2018
	’000	’000
Issued ordinary shares at 1 January	**1,000,000**	1,000,000
Effect of shares purchased under the share award plan *(Note 14(b)(ii))*	**(23,849)**	—
Weighted average number of ordinary shares at 31 December	**976,151**	1,000,000

(b) Diluted earnings per share

There was no difference between basic and diluted earnings per share as the Company did not have any dilutive potential shares outstanding during the years ended 31 December 2019 and 2018.

8 TRADE RECEIVABLES

	2019	2018
	RMB'000	RMB'000
Trade receivables from third parties, net of loss allowance	**127,226**	58,984

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

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

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

	2019	2018
	RMB'000	RMB'000
Aged within 1 month	**33,500**	19,101
Aged from 1 to 3 months	**63,500**	18,353
Aged from 3 to 6 months	**30,226**	21,530
	127,226	58,984

9 TIME AND RESTRICTED DEPOSITS

	2019	2018
	RMB'000	RMB'000
Time deposits with original maturity over 3 months *(Note (i))*	**—**	115,652
Other restricted deposits	**1,516**	1,500
	1,516	117,152

Note:

(i) At 31 December 2018, time deposits of RMB92,900,000 have been pledged for bank loans of a third party supplier of the Group amounting to RMB88,000,000, which were fully repaid by the borrower during the year ended 31 December 2019 and the corresponding time deposits pledges have been released at the same time.

10 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2019	2018
	RMB'000	RMB'000
Cash on hand and at bank	**203,595**	90,117

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

(b) Total cash outflow for lease:

Amounts included in the cash flow statement for leases comprise the following:

	2019	2018
		(Note)
	RMB'000	RMB'000
Within operating cash flows	**484**	889
Within financing cash flows	**559**	5,990
	1,043	6,879

Note:

The adoption of IFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

These amounts relate to the following:

	2019	2018
	RMB'000	RMB'000
Lease rentals paid	**1,043**	889

11 TRADE PAYABLES

	2019	2018
	RMB'000	RMB'000
Trade payables to third parties	**1,826**	—

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

	2019	2018
	RMB'000	RMB'000
Due within 1 month or on demand	**1,826**	—

All of the trade payables are expected to be settled within one year or are repayable on demand.

12 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current reporting period:

	At 31 December 2019	
	Present value of the minimum lease payments	Total minimum lease payments
	RMB'000	RMB'000
Within 1 year	**831**	850
After 1 year but within 2 years	**788**	850
After 2 years but within 5 years	**254**	284
	1,042	1,134
	1,873	1,984
Less: total future interest expenses		(111)
Present value of lease liabilities		1,873

Note:

The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Comparative information as at 31 December 2018 has not been restated. As at 1 January 2019, the Group entered into only one lease of an office premise with the lease term ended within one year, therefore the adoption of IFRS 16 does not have a material impact on the consolidated financial statements of the Group as at 1 January 2019. Further details on the impact of the transition to IFRS 16 are set out in Note 2(c).

13 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation/(prepaid income tax) in the consolidated statement of financial position represents:

	2019	2018
	RMB'000	RMB'000
Income tax payable/(prepaid income tax) at 1 January	**1,778**	(6,072)
Provision for income tax on the estimated taxable profits for the year *(Note 6(a))*	**20,141**	14,981
Income tax paid during the year	**(20,830)**	(7,131)
Income tax payable at 31 December	**1,089**	1,778
Representing:		
Prepaid income tax	**(2,302)**	(2,302)
Income tax payable	**3,391**	4,080
	1,089	1,778

(b) Deferred tax assets and liabilities recognised:

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

Deferred tax arising from:	*Assets — accrued expenses and government grants and related amortisation* RMB'000	*Assets — unused tax losses* RMB'000	*Assets — impairment losses* 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
At 1 January 2018	4,956	1,257	340	(31)	(1,300)	5,222
(Charged)/credited to the consolidated statement of profit or loss *(Note 6(a))*	(379)	1,316	(76)	12	(2,500)	(1,627)
At 31 December 2018	4,577	2,573	264	(19)	(3,800)	3,595
(Charged)/credited to the consolidated statement of profit or loss *(Note 6(a))*	(379)	1,371	570	12	—	1,574
At 31 December 2019	4,198	3,944	834	(7)	(3,800)	5,169

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

	2019	2018
	RMB'000	RMB'000
Deferred tax assets recognised in the consolidated statement of financial position	**8,969**	7,395
Deferred tax liabilities recognised in the consolidated statement of financial position	**(3,800)**	(3,800)
	5,169	3,595

(d) Deferred tax liabilities not recognised

As disclosed in Note 6(b)(v), at 31 December 2019 taxable temporary differences relating to the undistributed profits of the subsidiaries of the Group established in the PRC amounted to RMB245,937,000 (31 December 2018: RMB287,295,000), where deferred tax liabilities in respect of the PRC withholding tax that would be payable on the distributions of these profits, have not been recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

14 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

	2019	2018
	RMB'000	RMB'000
Final dividend proposed after the end of the reporting period of HK$0.02 per ordinary share (2018: HK$0.02 per ordinary share)	**17,036**	17,524

The directors resolved on 30 March 2020 that a final dividend of HK$0.02 per ordinary share is to be distributed to the equity shareholders of the Company, subject to the approval of the equity shareholders at the forthcoming annual general meeting. The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

	2019	2018
	RMB'000	RMB'000
Final dividend proposed in respect of the previous financial year, approved and paid during the year, of HK$0.02 per ordinary share (2018: HK$0.02 per ordinary share)	**17,283**	16,862

(b) Share capital

(i) Issued share capital

	2019		2018	
	No. of shares	**RMB'000**	No. of shares	RMB'000
Ordinary shares, issued and fully paid:				
At 1 January and at 31 December	**1,000,000,000**	**7,921**	1,000,000,000	7,921

(ii) Purchase of own shares

During the year, the Company purchased its own shares on the Stock Exchange as follows:

Month/Year	Number of shares repurchased	Highest price paid per share RMB	Lowest price paid per share RMB	Aggregate price paid RMB'000
April 2019	14,252,000	1.73	1.71	24,508
May 2019	13,096,000	1.77	1.71	22,917
August 2019	5,500,000	1.77	1.73	9,647
September 2019	10,072,000	1.77	1.74	17,739
October 2019	6,180,000	1.78	1.73	10,842
				85,653

As announced on 29 March 2019, the Board of the Company approved the adoption of a share award plan (the "Plan"). The purposes of the Plan are to recognise and reward the contribution of eligible participants to the growth and development of the Group, to give incentives to eligible participants in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. In order to satisfy the share award to be granted under the Plan, the Company repurchased its own shares as disclosed above. The total amount paid on the repurchased shares of RMB85,653,000 were debited to "reserve-shares held under share award plan". By the end of 31 December 2019, there was no share which has been granted.

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 2019, the Group continued to engage in the business of 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 carry out purchasing of raw poplar wood panels, and can choose to conduct the drying, shaving and cutting processes at their own facilities or elsewhere. The Group provides the service to customer for their poplar wood panels at a fee. 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 that of 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 less-shaved Processed Wood Panels ("**less-shaved Processed Wood Panels**") 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 that of 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. In order to resume the operation, the Handan Factory had upgraded its production facilities and enhanced its production process to comply with the Air Pollution Control Word Plan. At the same time, the local government also assisted in the construction of a natural gas pipeline for use by the Handan Factory. Under the joint efforts of the local government and the Handan Factory, the Handan Factory began its trial operation in July 2019.

On 29 March 2019, the Board approved the adoption of a share award plan (the "**Share Award Plan**"). The purposes of the Share Award Plan are to recognise and reward the contribution of eligible participants to the growth and development of the Group, to give incentives to eligible participants in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. For details of the Share Award Plan, please refer to the announcement of the Company dated 29 March 2019.

In early June 2019, the management of the Company, together with the leader of the PRC, attended the 23rd St. Petersburg International Economic Forum (the "**Forum**") and related trade events. The Forum, first held in 1997 and hosted by the Ministry of Economic Development of Russia, is dubbed the "Russian Davos". The Company was very delighted to have attended the Forum and joined the plenary session attended by Russian President Putin and leaders of other nations, and have exchanged views and participated in the discussion about Chinese and Russian economies and cooperation with regard to the use of technology to maximize value of plantation, and where consensus on further cooperation was reached.

On 10 August 2018, Jiangsu AMS Wood Industry Company Limited ("**Jiangsu AMS**") entered into a short-term loan agreement with Hebei Overseas Listed Equity Investment Fund Co., Ltd.* ("河北境外上市股權投資基金有限公司") ("**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 (the "**Loan**") 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. The repayment of the Loan was due on 17 August 2019. On 16 August 2019, Jiangsu AMS entered into a supplemental loan agreement with Hebei Overseas pursuant to which Jiangsu AMS agreed to extend the term of the Loan for one more year to 17 August 2020. For details of the provision of loan, please refer to the announcements of the Company dated 10 August 2018 and 16 August 2019.

In October 2019, the Group organised the "2019 International Forum on Wood Modification"《2019木材改性國際論壇》(the "**Huai'an Forum**") hosted by the Chinawood Protection Industry Association ("中國木材保護工業協會"), Northeast Forestry University ("東北林業大學") and Key Laboratory of Bio-based Material Science and Technology ("生物質材料科學與技術教育部重點實驗室"). The Huai'an Forum was held for the first time in Huai'an, Jiangsu Province between 28 and 30 October 2019.

The Huai'an Forum was themed with "Perspective Science and Technology, Innovative and Creative Materials, Overturn of Tradition and Guiding the Future". The event brought together about 400 guests from governments, local and overseas businesses, universities, institutions and media, who had a profound exchange of insights and analyses on the trend, application and industry development of international wood modification technology and its development, application and prospect of wood modification. At the Huai'an Forum, the Group was awarded the "Outstanding Contribution Award for the Global Modified Wood Industry" ("全球改性木材行業傑出貢獻獎") by the organizing committee of the International Forum on Wood Modification for its exemplary and contribution to the world's wood optimization and modification. The Huai'an Forum then held a press conference on the Group's new product. Mr. Li Li, Chief Executive Officer and Executive Director of the Company, presented the Group's latest research and development results of carat wood ("**Carat Wood**"), a solid wood product that has no formaldehyde, and gave a detailed elaboration on its characteristics. Carat Wood is another achievement on the scientific research after salicaceae ("**Salicaceae**"), the product name of existing less-shaved Processed Wood Panels, and this breakthrough indicates that the new green wood enters the era of "no formaldehyde".

In 2019, the Group has intention to expand its existing production facilities of Jiangsu AMS through constructing a new production factory nearby the existing production facilities of Jiangsu AMS (the "**Expansion Project**"). On 3 December 2019, the Company and Jiangsu Huai'an Industrial Park Management Committee* (江蘇淮安工業園區管理委員會) ("**Huai'an Management Committee**") entered into a cooperation agreement (the "**Cooperation Agreement**"), pursuant to which the Company has agreed to pay a security deposit of RMB3.0 million as surety for the bidding for the acquisition of the land use right of a parcel of land in Jiangsu Huai'an in an auction to be organized and, if the Group succeeds in bidding for the land, for payment of part of the purchase price for the land use right. The security deposit will be refunded to the Group if it fails in its bidding for the relevant land use right. Furthermore, under the Cooperation Agreement, Huai'an Management Committee has agreed to, among others, render assistance in handling related approval procedures for, and the obtaining of all types of certificates, for the Expansion Project. The entering into the Cooperation Agreement allows the Group to gain assistance from Huai'an Management Committee for the development of the Expansion Project. For details of the Expansion Project, please refer to the announcement of the Company dated 3 December 2019.

The outbreak of the coronavirus (COVID-19) epidemic (the "**Epidemic**") in January 2020 in the PRC has caused, among others, (i) the shortage of workforce in the production facilities of the Group; (ii) disruption to the logistics network following the implementation of travel and transportation restrictions in various cities in the PRC leading to delay in delivery of raw materials to the Group; and (iii) extensive disruption to the normal operation of the businesses in the PRC, including the downstream manufacturers of solid wood furniture, which requires Wood Processing Procedure Services from the Group and thereby may affect the Group's sales. The Group believes that the PRC government has adopted strict preventive and control measures to curb the spread of the Epidemic. The Group will continue to monitor closely the development of the Epidemic and relevant PRC government policies and will ensure resumption of full operation of the Group's production facilities as soon as possible to the extent practicable. For details of the potential impact of the Epidemic on the Group's business operations, please refer to the announcement of the Company dated 24 February 2020.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by about RMB35.9 million or 14.5% from about RMB247.6 million for the year ended 31 December 2018 to about RMB211.7 million for the year ended 31 December 2019. The decrease in revenue was mainly attributable to the decrease in sales of previous years' stock of less-shaved Processed Wood Panels with higher unit selling price. Since certain customers were able to purchase adequate raw poplar wood panels for the Group to conduct its Wood Processing Procedure, the demand on previous year's stock of less-shaved Processed Wood Panels was reduced. As a consequence, revenue from the sale of less-shaved Processed Wood Panels decreased, however, revenue from rendering of Wood Processing Procedure Service increased.

REVENUE BY SEGMENT

Analysis of revenue by segment is as follows:

	Year ended 31 December							
	2019				2018			
	Weight (Ton) *(Note 1)*	**Volume (m^3)**	**RMB'000**	**%**	Weight (Ton) *(Note 1)*	Volume (m^3)	RMB'000	%
Less-shaved Processed Wood Panels	**—**	**9,130**	**30,921**	**14.6**	—	25,735	92,924	37.5
Rendering of Wood Processing Procedure Service	**93,268**	**—**	**180,734**	**85.4**	81,705	—	154,668	62.5
	93,268	**9,130**	**211,655**	**100.0**	81,705	25,735	247,592	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:

	Year ended 31 December	
	2019	2018
	RMB	RMB
Less-shaved Processed Wood Panels		
— average selling price per cubic meter	**3,387**	**3,611**
Rendering of Wood Processing Procedure Service		
— average selling price per ton consumed	**1,938**	**1,893**

Less-shaved Processed Wood Panels

Revenue from sales of less-shaved Processed Wood Panels decreased by about RMB62.0 million, or 66.7% from about RMB92.9 million in 2018 to about RMB30.9 million in 2019. The decrease was primarily due to certain customers were able to purchase adequate raw poplar wood panels for the Group to conduct its Wood Processing Procedure and therefore they reduced in the demand of the Group's previous years' stock of less-shaved Processed Wood Panels. It resulted in the decrease in revenue from sales of less-shaved Processed Wood Panels. The sales volume of less-shaved Processed Wood Panels also decreased by about 16,605m^3 from about 25,735m^3 for the year ended 31 December 2018 to about 9,130m^3 for the year ended 31 December 2019.

The average selling price of less-shaved Processed Wood Panels decreased from about RMB3,611/m^3 for the year ended 31 December 2018 to about RMB3,387/m^3 for the year ended 31 December 2019. The decrease was mainly attributable to the sales promotion of less-shaved Processed Wood Panels offered to the existing customers for celebrating the resumption of production of the Handan Factory in the second half of 2019.

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 year ended 31 December 2019. The customers provide their raw wood panels to the Group and the Group charged an average processing fee of about RMB1,938 per ton of the impregnation fluid consumed during the Wood Processing Procedure for the year ended 31 December 2019, as compared to the average processing fee of about RMB1,893 per ton for the year ended 31 December 2018. As discussed under the paragraph headed "Revenue" above, since certain customers were able to purchase adequate raw poplar wood panels for the Group to conduct its Wood Processing Procedure, they reduced in the demand of the Group's previous years' stock of less-shaved Processed Wood Panels. As a result, revenue derived from rendering of Wood Processing Procedure Service increased by about RMB26.0 million or 16.8% from about RMB154.7 million for the year ended 31 December 2018 to about RMB180.7 million for the year ended 31 December 2019.

Cost of Sales

Cost of sales of the Group decreased by about RMB36.2 million or 33.1% from about RMB109.5 million for the year ended 31 December 2018 to about RMB73.3 million for the year ended 31 December 2019. 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 decrease in sales volume of less-shaved Processed Wood Panels resulted in the decrease in total cost of sales of the Group.

Gross Profit

Gross profit of the Group remained stable at about RMB138.1 million for the year ended 31 December 2018 and about RMB138.4 million for the year ended 31 December 2019.

GROSS PROFIT MARGIN BY SEGMENT

Analysis of gross profit margin by segment is as follows:

	Year ended 31 December	
	2019	2018
	%	%
Less-shaved Processed Wood Panels	**21.1**	25.7
Rendering of Wood Processing Procedure Service	**72.9**	73.9
Overall gross profit margin	**65.4**	55.8

Overall gross profit margin of the Group increased from about 55.8% for the year ended 31 December 2018 to about 65.4% for the year ended 31 December 2019. Such increase was mainly attributable to the decrease in sales of less-shaved Processed Wood Panels which yields a lower gross profit margin of about 21.1% for the year ended 31 December 2019 than that of rendering of Wood Processing Procedure Service of about 72.9% for the year ended 31 December 2019.

Less-shaved Processed Wood Panels

Gross profit margin of less-shaved Processed Wood Panels decreased from about 25.7% for the year ended 31 December 2018 to about 21.1% for the year ended 31 December 2019. Such decrease was mainly attributable to the decrease in average selling price per cubic meter of less-shaved Processed Wood Panels from about RMB3,611/m^3 for the year ended 31 December 2018 to about RMB3,387/m^3 for the year ended 31 December 2019. The decrease in average selling price was mainly due to the sales promotion of less-shaved Processed Wood Panels offered to the existing customers for celebrating the resumption of production of the Handan Factory in the second half of 2019.

Rendering of Wood Processing Procedure Service

Gross profit margin of rendering of Wood Processing Procedure Service remained stable for the years ended 31 December 2018 and 2019 which were about 73.9% and 72.9% respectively.

Other Income

Other income mainly comprises rental income from operation leases, interest income and income from government grants. The Group's other income increased by about RMB4.2 million or 19.3% from about RMB21.8 million for the year ended 31 December 2018 to about RMB26.0 million for the year ended 31 December 2019. The increase was mainly due to the increase in rental income from operating leases and interest income. The rental income from operating leases increased by about RMB2.0 million from about RMB11.7 million for the year ended 31 December 2018 to about RMB13.7 million for the year ended 31 December 2019. The increase in rental income from operation leases was mainly due to the new lease of certain idle facilities and workshops of the Handan Factory to one independent customer in 2019. In addition, the Group's interest income also increased by about RMB4.8 million from about RMB4.8 million for the year ended 31 December 2018 to about RMB9.6 million for the year ended 31 December 2019. The increase in interest income was mainly due to the increase in loan interest income of about RMB6.3 million for the year ended 31 December 2019 derived from a loan provided to Hebei Overseas by the Group in the second half of 2018 and two short-term loans provided to two independent customers of the Group in 2019. For details of the provision of the loan provided to Hebei Overseas, please refer to the announcements of the Company dated 10 August 2018 and 16 August 2019. As part of the funds were lent, the amount of time deposits placed in banks were reduced, resulting in a decrease in the interest income derived from bank's time deposits about RMB1.8 million for the year ended 31 December 2019.

However, the increase in rental income from operation leases and interest income were partially offset by the decrease in government grants and the increase in loss on disposal of property, plant and equipment. The amount of government grants received by the Group decreased by about RMB1.8 million from about RMB5.0 million for the year ended 31 December 2018 to about RMB3.2 million for the year ended 31 December 2019. The decrease was mainly due to the amount of one-off government grants received by the Group in 2019 were less than 2018. Furthermore, due to the upgrading of the production facilities of the Handan Factory in order to comply with the Air Pollution Control Work Plan, some obsoleted equipment had been disposed of and recorded an increase in loss on disposal of property, plant and equipment of about RMB2.2 million for the year ended 31 December 2019.

Selling Expenses

The Group's selling expenses increased by about RMB0.7 million or 17.1% from about RMB4.1 million for the year ended 31 December 2018 to about RMB4.8 million for the year ended 31 December 2019. Such increase was principally due to the expenses incurred for organizing the Huai'an Forum in late October 2019.

Administrative Expenses

The administrative expenses mainly included staff costs, depreciation and amortisation charges, factory suspension losses, other tax expenses and research and development expenses. The Group's administrative expenses increased by about RMB1.0 million or 1.5% from about RMB66.6 million for the year ended 31 December 2018 to about RMB67.6 million for the year ended 31 December 2019. The Group's staff costs increased by about RMB1.4 million from about RMB7.8 million for the year ended 31 December 2018 to about RMB9.2 million for the year ended 31 December 2019. The increase in staff costs was mainly attributable to the increase in number of administrative staff because of resumption of production of the Handan Factory in 2019. The depreciation and amortisation charges increased by about RMB1.9 million from about RMB14.6 million for the year ended 31 December 2018 to about RMB16.5 million for the year ended 31 December 2019. The increase was mainly due to the resumption of production of the Handan Factory in 2019. On the other hand, the Group recorded an increase in the asset impairment losses of about RMB3.2 million from about RMB0.8 million for the year ended 31 December 2018 to about RMB4.0 million for the year ended 31 December 2019. The increase in the asset impairment losses was mainly because of provision for expected credit loss of about RMB4.0 million for the account receivables of the Group for the year ended 31 December 2019.

However, the increase in staff costs, depreciation and amortisation charges and asset impairment losses were partially offset by the decrease in factory suspension losses and other tax expenses. The factory suspension losses decreased by about RMB3.9 million from about RMB10.3 million for the year ended 31 December 2018 to about RMB6.4 million for the year ended 31 December 2019 due to the resumption of production of the Handan Factory in 2019. The other tax expenses decreased by about RMB1.2 million from about RMB7.7 million for the year ended 31 December 2018 to about RMB6.5 million for the year ended 31 December 2019. The decrease was mainly due to the decrease in sales tax surcharges as a result of the decrease in valued-added tax paid due to the decrease in revenue of the Group for the year ended 31 December 2019.

Finance Costs

The Group's finance costs increased by about RMB0.4 million or 13.8% from about RMB2.9 million for the year ended 31 December 2018 to about RMB3.3 million for the year ended 31 December 2019. The increase in finance costs was mainly due to the borrowing of a bank loan of RMB20.0 million for the year ended 31 December 2019. As a result, the Group's bank borrowing interest expenses increased by about RMB0.6 million from about RMB2.0 million for the year ended 31 December 2018 to about RMB2.6 million for the year ended 31 December 2019.

Income Tax Expenses

The Group's income tax expenses increased by about RMB2.0 million or 12.0% from about RMB16.6 million for the year ended 31 December 2018 to about RMB18.6 million for the year ended 31 December 2019. The effective tax rate of the Group also increased from 19.3% for the year ended 31 December 2018 to 20.9% for the year ended 31 December 2019. The increase in income tax expenses and effective tax rate were mainly due to the fact that a PRC withholding tax of RMB3.8 million was accrued for a proposed distribution of RMB76.0 million out of the retained profits of a subsidiary of the Group incorporated in the PRC to its immediately holding company in 2020.

Profit for the Year

As a combined result of the factors discussed above, the Group's profit for the year increased from about RMB69.6 million for the year ended 31 December 2018 to about RMB70.1 million for the year ended 31 December 2019. The Group's net profit margin also increased from about 28.1% for the year ended 31 December 2018 to about 33.1% for the year ended 31 December 2019. Such increase was mainly due to the increase in other income which was partially offset by the decrease in revenue and the increase in selling expenses, administrative expenses, finance costs and income tax expenses for the year ended 31 December 2019.

LIQUIDITY AND FINANCIAL RESOURCES AND TREASURY POLICY

	As at 31 December	
	2019	2018
Current ratio	**6.44 times**	8.52 times
Gearing ratio*	**0.15 times**	0.12 times

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

The current ratio of the Group as at 31 December 2019 was about 6.44 times as compared to that of about 8.52 times as at 31 December 2018. The gearing ratio as at 31 December 2019 was about 0.15 times as compared to that of 0.12 times as at 31 December 2018. The decrease in current ratio and the increase in gearing ratio were mainly due to the increase in a bank borrowing of RMB20.0 million during the year ended 31 December 2019.

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 31 December 2019 (31 December 2018: Nil).

PLEDGE OF ASSETS

At 31 December 2019, the Group's property, plant and equipment, investment properties and land use right with a carrying amount of about RMB111.5 million (31 December 2018: RMB58.5 million) were pledged to banks for bank borrowings.

CONTINGENT LIABILITIES

During the year ended 31 December 2018, the Company provided a corporate guarantee for a long-term other loan of Hebei Kuaiyou Wood Products Manufacturing Co., Ltd. ("**Hebei Kuaiyou**"), a major customer of the Group, amounting to RMB50.0 million. This loan was fully repaid by Hebei Kuaiyou in January in 2020 and the guarantee to this customer was released at the same time.

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 year ended 31 December 2019.

CAPITAL STRUCTURE

There has been no change in the capital structure of the Company for the year ended 31 December 2019. The capital of the Company only comprises of ordinary shares.

As at 31 December 2019, all the bank loans of the Group are denominated in RMB and are subject to fixed interest rate.

SIGNIFICANT INVESTMENTS

As at 31 December 2019, there was no significant investment held by the Group (31 December 2018: Nil).

FOREIGN CURRENCY EXPOSURE

During 2019, the Group's monetary assets and transactions were mainly denominated in RMB and HK$. The management of the Group noted that the recent fluctuation in the exchange rate between RMB and HK$, and is of the opinion that it does not currently have a material adverse impact on the Group's financial position. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

EMPLOYEES AND EMOLUMENT POLICY

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

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

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

As at 31 December 2019, the Group employed 198 employees, the total staff costs amounted to about RMB17.9 million (2018: about RMB15.7 million). The Company maintains a share option scheme ("**Share Option Scheme**") and a Share Award Plan for the purpose of providing incentives and rewards to the participants for their contributions to the Group. As at the date of this announcement, no option and share has been granted under the Share Option Scheme and Share Award Plan.

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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Except for the disclosure in Note 14(b), neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

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 Rules Governing the Listing of securities on the Stock Exchange ("**Listing Rules**") during the year ended 31 December 2019.

Further information on the Company's corporate governance practices will be set out in the Corporate Governance Report contained in the Company's annual report for the year ended 31 December 2019, which will be sent to the shareholders of the Company in due course.

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

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct governing dealings by all Directors in the securities of the Company on terms no less exacting than the required standard of dealings as set out in Listing Rules. Specific enquiries have been made with all Directors, who have confirmed that, for the year ended 31 December 2019, they were in compliance with the required provisions set out in the Model Code. All Directors declared that they have complied with the required standard of dealings as set out in the Model Code throughout the period for the year ended 31 December 2019.

DIVIDEND

The Directors recommend the payment of a final dividend of HK$0.02 per ordinary share for the year ended 31 December 2019 (2018: HK$0.02 per ordinary share) to be payable to the shareholders of the Company whose names appear on the register of members of the Company as at Friday, 29 May 2020, subject to the approval of the Company's shareholders at the forthcoming annual general meeting of the Company to be held on Wednesday, 20 May 2020. The final dividend will be payable on or around Wednesday, 10 June 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 14 May 2020 to Wednesday, 20 May 2020 (both days inclusive), during which period no transfer of the shares will be effected. The holders of shares whose names appear on the register of members of the Company on Wednesday, 20 May 2020 will be entitled to attend and vote at the annual general meeting of the Company. In order to qualify for attending and voting at the annual general meeting of the Company or any adjournment thereof, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong by no later than 4:00 p.m. on Wednesday, 13 May 2020.

The register of members of the Company will be closed from Wednesday, 27 May 2020 to Friday, 29 May 2020 (both days inclusive), during which period no share transfer will be registered. In order to qualify for the proposed final dividend, all completed transfer documents, accompanied by relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. on Tuesday, 26 May 2020.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director and a connected entity of a Director had a material interest, subsisted at the end of the year or at any time during the year ended 31 December 2019.

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 of the Board has reviewed the consolidated results of the Group for the year ended 31 December 2019.

AUDITOR

The figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, KPMG, to the amounts set out in the Group's consolidated financial statements for the year.

EVENT AFTER THE REPORTING PERIOD

Save as disclosed above, no significant events took place subsequent to 31 December 2019.

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

Hong Kong, 30 March 2020

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

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

* *For identification purpose only*