2019 ANNUAL REPORT

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

Contents

Corporate Information

BOARD OF DIRECTORS

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

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

Ms. Yim Tsun
Ms. Ho Wing Yan

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited, Wei County Branch
Huaxia Bank Co., Ltd., Shijiazhuang Branch Office
Jiangsu Bank, Huai'an Technology Branch
Shanghai Pudong Development Bank, Huai'an Branch

LEGAL ADVISERS AS TO HONG KONG LAW

Chiu & Partners

AUDITORS

KPMG, Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

SHARE REGISTRARS

Cayman Islands Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

STOCK CODE

1885

COMPANY'S WEBSITE

http://www.chinawood.com.hk

Corporate Profile

China Wood Optimization (Holding) Limited (the "Company") and its subsidiaries (collectively, the "Group") are principally engaged in the sale of less-shaved Processed Wood Panels (as defined in the Management Discussion and Analysis ("MD&A") section of this annual report) and rendering of Wood Processing Procedure Service (as defined in the MD&A section).

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

The Group is currently operating two production plants located in Handan City, Hebei Province and Huai'an City, Jiangsu Province, the PRC respectively. In 2018, the Group's subsidiary located in Handan City had awarded 2017 State Science and Technology Improvement Award (Second Class)* (國家科學技術進步獎二等獎) and obtained the High and New Technology Enterprise Certificate, which is valid for a term of three calendar years from 2018 to 2020. The subsidiary located in Huai'an City obtained the High and New Technology Enterprise Certificate in 2017, which is valid for a term of three calendar years from 2017 to 2019.

* *The English name is for identification purpose only*

Financial Highlights

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

	Year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**211,655**	247,592	238,330	486,497	609,880
Gross profit	**138,357**	138,085	144,403	145,369	154,155
Gross profit margin (%)	**65.4**	55.8	60.6	29.9	25.3
Profit attributable to equity shareholders of the Company	**70,091**	69,647	56,436	70,193	75,113

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total non-current assets	**297,271**	320,777	345,646	388,213	379,673
Total current assets	**462,238**	454,160	422,013	363,356	280,746
Total current liabilities	**(71,802)**	(53,336)	(99,785)	(68,959)	(97,568)
Net current assets	**390,436**	400,824	322,228	294,397	183,178
Non-current liabilities	**(30,321)**	(31,807)	(31,835)	(84,878)	(35,448)
Equity attributable to equity shareholders of the Company	**657,386**	689,794	636,039	597,732	527,403

To all shareholders,

On behalf of the board (the "Board") of directors (the "Directors"), I am pleased to present the annual report of the Group for the financial year ended 31 December 2019.

OVERVIEW

Looking back at the past year, changing international conditions combined with the ongoing Sino-U.S. trade war introduced uncertainties to the global economy. Although the Sino-U.S. trade war affected the Group's upstream and downstream partners to a certain degree, it has provided opportunities for the Group to develop its business. Due to higher tariffs resulting from the trade war, the cost of high-quality timber imported from the United States has increased significantly, making such timber lose its competitive advantage in the People's Republic of China (the "PRC") market. Our downstream manufacturers of wood products have turned to neighboring countries of the PRC, such as Russia and Ukraine, to purchase poplar wood. They have also purchased artificially planted forest trees (such as poplar) from the PRC, which they then process to replace expensive wood imported from the United States, which has benefited the Group. Separately, to better understand the development opportunities provided by the "Belt and Road" initiative implemented by the PRC government, the senior management of the Company and I attended the most important international economic forum in Russia in June 2019. During the occasion, we exchanged views with guests on such topics as the Chinese and Russian economy and cooperation in high-value utilization of artificially planted forest trees; reaching consensus on further cooperation to promote mutual prosperity and advancement of the PRC and Russia in the alternative timber sector.

It is also worth noting that in view of growing concerns about the environment, society and customers, as well as the PRC Government's call for environmental protection, our factory in Handan, Hebei Province, the PRC has acted responsibly by suspending production and dismantling coal-fired boilers. Furthermore, it has commenced technology transformation, with the goal of moving towards clean energy. Due to the implementation of the environmental rectification project, the factory in Handan suspended production in the second half of 2017. This affected the Group's production capacity and output to some degree. With the rectification project completed at the end of July 2019, production has resumed gradually. The measures taken have been widely recognized by customers, helping to strengthen the image of the Group as an eco-friendly leader in the wood industry.

Since the outbreak of the novel coronavirus (COVID-19) epidemic (the "Epidemic") in January 2020, a number of provinces and cities in the PRC have adopted public health measures to curb the spread of the Epidemic. Although two of our factories, located respectively in Handan, Hebei Province and Huai'an, Jiangsu Province, the PRC, have gradually resumed limited production since 24 February 2020, the Epidemic has affected the Group's workforce, particularly those involved in production, delivery of raw materials and provision of wood processing procedure services to customers. This holds the potential for affecting the Group's sales in the first half of 2020. We believe that the PRC Government has adopted effective and strict preventive and control measures to curb the spread of the Epidemic, and that these measures have begun to take effect. We will maintain close contact with suppliers and customers so as to minimize the impact on both parties, and will make every effort to ensure that the Group's operations return to normal as soon as possible.

Chairlady's Statement

BUSINESS AND OPERATION REVIEW

During the past year, the Group's profits remained stable despite a challenging and volatile economic environment. For the year ended 31 December 2019, revenue derived from the Rendering of Wood Processing Procedure Service amounted to approximately RMB180.7 million, and thus accounted for approximately 85.4% of total revenue. Revenue from the Sales of less-shaved Processed Wood Panels amounted to approximately RMB30.9 million, and accounted for approximately 14.6% of total revenue. For the whole year, the Group recorded revenue of approximately RMB211.7 million, representing a decrease of approximately 14.5% when compared with last year. Profit attributable to equity shareholders of the Company remained stable at approximately RMB70.1 million. The Board has proposed 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).

The Group is committed to optimizing product quality and proactively investing in research and development to improve its patented impregnation fluids and production technologies, so as to constantly develop new products. In 2019, we launched a new product, Carat Wood, which is another scientific achievement by the Group on the back of Salicaceae, a quality solid wood product, and the first formaldehyde-free eco-friendly solid wood launched in the alternative green solid wood field. Carat Wood is greener and safer as it contains no formaldehyde or heavy metal, and possesses extreme stability, flexibility and resistance to cracking and deformation. With respect to price, it is far superior and more affordable than woods with the same properties, hence is very competitive in the market. I therefore believe that Carat Wood will receive significant attention and will be widely used after it is officially launched in the market.

OUTLOOK

Looking ahead, as a pioneer in the field of wood optimization in the PRC, and the only wood optimization company listed in Hong Kong, we will fully support and actively participate in technical research for advancing the wood industry. At the same time, we will continuously improve our research and development standards and expand production and sale of products to promote the widespread application of optimized wood in the market. In addition, we will continue to strengthen our research and development capabilities, particularly in products and impregnation fluid technologies. Our aim is to raise the efficiency of existing production technologies and reinforce the market leadership of the Group's processed wood products. We also intend to invest RMB180 million in the expansion of our production facilities in Huai'an, Jiangsu Province, to support future business development. Such work is expected to commence in the second half of 2020, and the expanded facilities will commence production by the end of 2021.

APPRECIATION

I would like to express my gratitude to the management team and our passionate staff for their efforts in and contributions to the Group in implementing its development strategy and sustaining operations during the past year. I wish to also extend my appreciation to our new and existing customers and business partners, as well as all shareholders for their loyalty, support and trust in the Group. I am confident that with our concerted effort, the Group will be able to gradually realize its vision of promoting the use of eco-friendly wood products and raising public awareness of the importance of protecting nature and the ecological environment, so that deforestation can be reduced and our precious forests can be protected.

Yim Tsun
Chairlady of the Board

30 March 2020

Management Discussion 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 Work 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.

* *The English name is for identification purpose only*

Management Discussion and Analysis

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 China Wood 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.

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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 new 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 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 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 report, 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.

Biographical Details of Directors

DIRECTORS

Executive Directors

Ms. Yim Tsun (閻峻) ("**Ms. Yim**"), aged 48, is an executive Director and the chairlady of the Board. She is one of the founders of the Group and one of the controlling Shareholders. Ms. Yim was appointed as the executive Director on 6 June 2012. Ms. Yim is mainly responsible for the strategic planning, corporate culture, overall operation and management of the Group. Ms. Yim obtained a professional diploma in public relations and communications management from the School of Continuing and Professional Studies of The Chinese University of Hong Kong (香港中文大學專業進修學院) in January 2008. Prior to establishing the Group, Ms. Yim worked as a manager in the China marketing department of the China Overseas Communications Limited* (中國海外傳播公司) from May 2001 to September 2003; and as a director of exhibition department in Hong Kong Wen Wei Po Daily International Public Relations Consultant Co. Limited (香港文匯報國際公關顧問有限公司) from September 2004 to November 2011. Ms. Yim is also a director of certain subsidiaries of the Company.

Mr. Li Li (李理) ("**Mr. Li**"), aged 40, is an executive Director and one of the founders of the Group. Mr. Li was appointed as the executive Director on 23 July 2012 and the chief executive officer of the Company on 20 December 2013. Mr. Li is also a member of each of the remuneration committee and nomination committee of the Company. Mr. Li is mainly responsible for the strategic planning and operation of the Group. Mr. Li obtained a diploma in computer applications from Zhengzhou University (鄭州大學) in July 1998. Mr. Li has accumulated over seven years of experience in sales, business management and over two years of experience in the chemical industry. Prior to establishing the Group, Mr. Li worked as a business manager in Shenzhen Qinzhong Electronics Co., Ltd.* (深圳秦眾電子股份有限公司) from May 1998 to November 2003, whereby he was responsible for sales to sizeable customers. Mr. Li also worked in the business department in ASUSTek Computer (Shanghai) Company Limited (Guangzhou Branch) (華碩電腦(上海)有限公司廣州分公司) from April 2004 to August 2006. From September 2006 to June 2009, Mr. Li worked as a technical supervisor in Beijing Quan Hui Chemical Co. Ltd.* (北京全輝化工有限責任公司). Mr. Li is also a director of Jiangsu AMS.

Independent Non-Executive Directors

Mr. Zhang Dali (張達立) ("**Mr. Zhang**"), aged 60, is an independent non-executive Director. Mr. Zhang was appointed as the independent non-executive Director on 20 December 2013. Mr. Zhang is also the chairman of the nomination committee of the Company and a member of each of the audit committee and remuneration committee of the Company. Mr. Zhang obtained his diploma in control engineering and computer science from the Harbin Institute of Technology (哈爾濱工業大學) in January 1982. Mr. Zhang then obtained a master of science in forest operations from The University of Alberta in June 1989, and a doctoral degree from the University of Wisconsin-Madison in December 1992. Mr. Zhang has accumulated over 15 years of professional experience in forestry, wood products and paper industries. Prior to joining the Group, Mr. Zhang was the managing director of RISI's, Inc. in Asia from March 2010 to February 2012 and a vice president in the corporate development at Norske Skog (Hebei) Paper Co., Ltd. during February 2008 to February 2010, where he was responsible for corporate development. Mr. Zhang also worked for more than 11 years with the Pöyry Management Consulting between September 1996 to February 2008, and held various positions with Pöyry offices in Singapore, New York and Shanghai, where he was responsible for business and marketing strategies. Mr. Zhang rejoined Pöyry Management Consulting from April 2014 to January 2018, as director and head of China Operation. Mr. Zhang is currently the Senior Consultant of Vision Hunters.

* *The English name is for identification purpose only*

Mr. Pu Junwen (蒲俊文) ("**Mr. Pu**"), aged 55, is an independent non-executive Director. Mr. Pu was appointed as the independent non-executive Director on 20 December 2013. Mr. Pu is also the chairman of the remuneration committee of the Company and a member of each of the audit committee and nomination committee of the Company. Mr. Pu obtained a bachelor in pulp and paper engineering from the Shaanxi University of Science and Technology (陝西科技大學, formerly known as 西北輕工業學院) in July 1986. Prior to joining the Group, Mr. Pu was involved in academic and research work for the College of Materials Science and Technology of Beijing Forestry University (北京林業大學材料科學與技術學院) where he was a professor from January 2008 to December 2011 teaching classes on chemical processing technique for forestry production. Mr. Pu has expertise in research work relating to pulp technologies and usage of cellulose and its derivatives. Mr. Pu has also held positions in paper making or forestry-related committees.

Mr. Lau Ying Kit (劉英傑) ("**Mr. Lau**"), aged 46, is an independent non-executive Director. Mr. Lau was appointed as the independent non-executive Director on 20 December 2013. Mr. Lau is also the chairman of the audit committee of the Company. Mr. Lau is currently an independent non-executive director of Xiezhong International Holdings Limited (Stock Code: 3663), Kingdom Holdings Limited (Stock Code: 528), United Strength Power Holdings Limited (Stock Code: 2337) and Sinco Pharmaceuticals Holdings Limited(Stock Code:6833), all listed on the Main Board of the Stock Exchange. Mr. Lau is also a director of Adex Mining Inc. (Stock Code: ade), a company listed on the TSX Venture Exchange in Canada from June 2011 to October 2017. Mr. Lau was the chief financial officer and company secretary of Great Harvest Maeta Group Holdings Limited (Stock Code: 3683), a company listed on the Main Board of the Stock Exchange from October 2010 to November 2017. Mr. Lau is a fellow member of the Hong Kong Institute of Certified Public Accountants and Mr. Lau obtained a master's degree in finance from the City University of Hong Kong in November 2008. Mr. Lau has extensive experience in finance and accounting in the PRC and Hong Kong.

CORPORATE GOVERNANCE PRACTICES

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

The Board is of the view that the Company has complied with all applicable code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the year ended 31 December 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS ("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.

THE BOARD OF DIRECTORS AND DIRECTORS' ATTENDANCE AT BOARD MEETINGS

The Board currently consisted of five Directors, comprising two executive Directors and three independent non-executive Directors. During the year ended 31 December 2019, eight Board meetings were held. Details of the attendance of the Directors are as follows:

Name of Directors	Attendance/ Number of Board Meetings
Executive Directors	
Ms. Yim Tsun *(Chairlady)*	8/8
Mr. Li Li *(Chief Executive Officer)*	8/8
Independent Non-executive Directors	
Mr. Zhang Dali	6/8
Mr. Pu Junwen	6/8
Mr. Lau Ying Kit	6/8

During the year ended 31 December 2019, the Company held one annual general meeting on 20 May 2019, being 2018 annual general meeting of the Company (the "2018 AGM").

2018 AGM	Number of Attendance
Executive Directors	
Ms. Yim Tsun *(Chairlady)*	1/1
Mr. Li Li *(Chief Executive Officer)*	1/1
Independent Non-Executive Directors	
Mr. Zhang Dali	1/1
Mr. Pu Junwen	1/1
Mr. Lau Ying Kit	1/1

RESPONSIBILITY OF THE BOARD

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

CORPORATE GOVERNANCE FUNCTIONS

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

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

DIRECTORS' TRAINING

According to the code provision A.6.5 of the CG Code, all Directors should participate in a programme of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, functions and duties of the Directors. During the year ended 31 December 2019, the Company had arranged to provide trainings to all the Directors.

For the year ended 31 December 2019, the Directors participated in the following continuous professional development:

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

Notes:

1. Professional training organised by professional organisation namely "Directors' Training" and "Directors and officers' Duties" were arranged by the Company to update the Directors' knowledge.

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

CHAIRLADY AND CHIEF EXECUTIVE OFFICER

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

During the year ended 31 December 2019, the roles of the chairlady and the chief executive officer are separate. Ms. Yim Tsun was the chairlady while the role of the chief executive officer was performed by Mr. Li Li.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Terms of Appointment of Independent Non-executive Directors

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

Independent Non-executive Directors

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

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

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

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

BOARD COMMITTEES

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

Audit Committee

The Company has established its audit committee on 20 December 2013 with terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting 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.

During the year ended 31 December 2019, two audit committee meetings were held to review and discuss with the external auditors and the management of the Company the accounting principles and practices adopted by the Group, the draft financial statements for the six months ended 30 June 2019 and the year ended 31 December 2019 as well as risk management, internal control systems, the effectiveness of the internal audit function and other financial reporting matters. The attendance records of individual committee members are set out below:

	Number of Meetings Attended/Held
Mr. Lau Ying Kit *(Chairman)*	2/2
Mr. Zhang Dali	2/2
Mr. Pu Junwen	2/2

Remuneration Committee

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

During the year ended 31 December 2019, one remuneration committee meeting was held to, amongst others, review and approve the remuneration packages of the Directors and senior management of the Company. The attendance records of individual committee members are as follows:

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

Nomination Committee

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

Nomination Policy

The Board has adopted the nomination policy (the "Nomination Policy") on 28 August 2018 which sets out the nomination criteria and procedures for the Company to select candidate(s) for possible inclusion in the Board. The Nomination Policy could assist the Company to achieve board diversity in the Company and enhance the effectiveness of the Board and its corporate governance standard.

When assessing the suitability of a candidate, factors such as the qualifications, skills, integrity and experience will be taken into consideration as a whole. In the case of independent non-executive Directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. Since the selection of candidates should ensure that diversity remains a central feature of the Board, a range of diverse perspectives, including but not limited to gender, age, cultural and educational background, or professional experience would be considered.

The process to identify potential candidates for the Board would be as follows:

(1) identifying potential candidates, including recommendations from the Board members, professional search firms and the shareholders of the Company;

(2) evaluating the candidates based on the approved selection criteria through methods such as reviewing the resume and conducting the background checks;

(3) reviewing the profiles of the shortlisted candidates and interview them; and

(4) making recommendations to the Board on the selected candidat.es.

The Nomination Policy also includes the Board succession plan to assess whether vacancies on the Board would be created or expected due to the Directors' resignation, retirement, death and other circumstances and to identify candidates in advance if necessary. The Nomination Policy will be reviewed on a regular basis.

Board Diversity Policy

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

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

During the year ended 31 December 2019, one nomination committee meeting was held. The attendance records of individual committee members are as follows:

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

Directors' and Auditors' Responsibility for the Consolidated Financial Statements

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

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

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

AUDITORS' REMUNERATION

The remuneration paid/payable to the Company's external auditors, KPMG, for the year ended 31 December 2019, is set out as follows:

Nature of Services	Fee paid/ payable RMB'000
Annual audit service	3,200

The fee charged by KPMG in respect of annual audit service for the year ended 31 December 2019 amounted to RMB3.2 million.

COMPANY SECRETARY

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

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

Ms. Ho is an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms. Ho continues to study professional course of corporate governance and has extensive experience in the company secretarial field for listed companies. Ms. Ho is also a holder of the Practitioner's Endorsement issued by The Hong Kong Institute of Chartered Secretaries. According to Rule 3.29 of the Listing Rules, Ms. Ho took more than 15 hours of relevant professional training for the year ended 31 December 2019.

SHAREHOLDERS' RIGHTS

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

To convene an EGM

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

Procedures by which enquiries may be put to the Board

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

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

Procedures for putting forward proposals at general meetings

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

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

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

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

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

Communication with Shareholders

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

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

DIVIDEND POLICY

The Board has adopted the dividend policy (the "Dividend Policy") on 28 August 2018 which sets out the appropriate procedure on declaring and recommending the dividend payment of the Company. The Company takes priority to distributing dividends in cash and shares its profits with the shareholders of the Company. The dividend distribution decision of the Company will depend on, among others, the financial results, the current and future operations, liquidity and capital requirements, financial condition and other factors as the Board may deem relevant. The Board may also declare special dividends from time to time. The Dividend Policy will be reviewed on a regular basis.

INVESTOR RELATIONS

There was no change in the memorandum and articles of association of the Company during the year 31 December 2019.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

All Directors and those employees who could have access to, and monitor, the information of the Group are responsible for making appropriate precautions to prevent abuse or misuse of such information. Employees of the Group are prohibited from using inside information for their own benefit.

The Board is also vested with the responsibility to disseminate to the shareholders and the public any inside information in the form of announcements and circulars, in accordance with the Listing Rules.

Environmental, Social and Governance Report

ABOUT THIS REPORT

This Environmental, Social and Governance Report provides the latest information on the sustainable development performance of China Wood Optimization (Holding) Limited (the "Company") and its subsidiaries (collectively "China Wood", the "Group" or "we") from 1 January 2019 to 31 December 2019 (the "Reporting Period").

This report illustrates our major items, measures and achievements in environmental, social and governance areas objectively, with a view to strengthening our engagement and relations with stakeholders. Unless otherwise stated, this report includes our major businesses only, namely the production of impregnation liquids using biosynthetic resin technology for raw wood panels, also known as wood processing technology, for environmental, social and governance strategy and performance.

This report is prepared based on the "Environmental, Social and Governance Reporting Guide (the "Guide") as set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), disclosing the sustainability performance that was important in the Guide and related to the business of the Group during the Reporting Period. Based on the consultation conclusions issued by the Stock Exchange in December 2019, we are informed that the Stock Exchange has made revision of the Guide includes introducing mandatory disclosure requirements and amending the "Environmental" key performance indicators, etc. We will proactively provide updates according to the Guide of the Listing Rules, and prepare relevant data to meet the revised disclosure requirements.

To meet the Guide's requirements, the Group has commissioned independent consultants to provide professional advice and allow our stakeholders to fully participate. The information disclosed in this report is the most concerned issues of our major stakeholders. According to the requirements of the Stock Exchange, when we present information, we are committed to using Materiality, Quantitative, Balance and Consistency as the basis for this report. In the long run, we promise to disclose more comprehensive information regarding environmental, social and governance to enhance the transparency of our sustainability performance.

As an environmentally and socially responsible company, we attach great importance to the valuable advice from our stakeholders. We welcome different sectors to provide opinions and suggestions regarding this report or the Group's overall sustainable development performance. Please send your opinions to chinawood@sprg.com.hk.

CORPORATE PROFILE

CORE VALUES

The Group insists on four core values, including integrity, enthusiasm, innovation and sustainability.

Integrity
We are committed to meeting our commitments to employees, customers, and other communities

Enthusiasm
Seeking opportunities for improvement continuously, hoping to become better

Innovation
Actively conduct technological innovation work, and continue to review and improve the management model

Sustainability
The road to green sustainable development allows us to operate sustainably

CORPORATE VISION

In the future, AMS will become the model of the wood optimization and processing industry in China, with unremitting efforts, we will change the method of using wood.

HOW TO PROMOTE SUSTAINABLE DEVELOPMENT

Sustainable development is currently the general trend for enterprises and it has a great influence on the wood industry. Thus, we continue to allocate resources on innovation, research and development to further improve the product quality while improving the standard of environmental protection and resource management. We adhere to the concept of the sustainable development and commit to make every effort to promote sustainable development in environmental, social and governance.

- **Corporate Social Responsibility**

  We incorporate environmental and social concerns into the business operation and perform corporate social responsibilities while developing business, in order to create long-term value for our stakeholders. We believe that our development is not merely pursuit of corporate profits, but actively focus on environmental protection while remaining up-to-date, protect environment with innovative technologies, and become an innovative enterprise in committing to conserve energy, reduce emission and protect environment with low carbon, and leading the future.

- **Green Operation**

  We uphold the business principles of "people-oriented, operate with integrity and shared prosperity for people and the nature", through the high-value use of artificial fast-growing forest timber and the sustainable development of artificial fast-growing forest, we can reduce the impact of illegal logging, improve climate and protect precious natural forest resources. The 50-200 years of growth for natural forests not only enriches the market for solid wood timber, but also greatly improves the utilization rate of natural timber.

  We uphold the world's leading environmental friendly production vision and insist on zero emission and low consumption in our production process, which enables us to consume less energy, compared to other production means that use the same raw materials. We achieve high level responsibility of "zero pollution" and "zero destruction" from production and processing to product use.

ANNUAL AWARDS AND RECOGNITION

Date	Description
February 2019	Jiangsu AMS was honored the "Outstanding Contribution Award" by the Management Board of Jiangsu Huai'an Industrial Park
March 2019	Hebei AMS won the Beijing Science and Technology Award (Third Class) from the State Council of the People's Republic of China
April 2019	Hebei AMS was honored the "Standard Revision Certificate" by the National Technical Committee 41 on Timber of Standardization Administrator of China
April 2019	China Wood was invited to attend the Establishment Meeting of Wood Protection and Modification Industry Branch organized by China National Forest Products Industry Association and 2019 National Wood Protection and Modification Forum and shared popular and complicated issues of the industry
May 2019	Mr. Li Li, the Chief Executive Officer and Executive Director of China Wood was elected as the15th "Model Youth in Huai'an"
June 2019	China Wood (as excellent PRC member enterprise) together with the leader of the PRC, attended the 23rd St. Petersburg International Economic Forum (SPIEF) and had an in-depth exchange and discussion on topics and projects
June 2019	China Wood joined Russia International Elite Union
July 2019	Jiangsu AMS successfully passed the in-depth certification of SGS certification authority, including • ISO 9001:2015 quality control system • ISO 14001:2015 environment management system • ISO 45001:2018 occupation health and safety management system
September 2019	Representative of China Wood attended the 6th World Wood-Based Panel Conference
October 2019	China Wood and Danish IWT LLC entered into a strategic cooperation agreement
October 2019	China Wood won the "Outstanding Contribution Award of Global Modified Wood Industry"
December 2019	Mr. Li Li, the Chief Executive Officer and Executive Director of China Wood won the "Thirty Years of Excellence in China Forestry Industry"

COMMUNICATION WITH STAKEHOLDERS

We communicate with employees, customers, regulatory authorities, shareholders, investors and suppliers actively and regularly to understand the opinions of our stakeholders, thus it further improves the current and future business. Through years of operation, we understand the significance of stakeholders' opinions. We cannot make improvement without support and feedback from stakeholders. In order to develop current and future sustainable development plan, we must understand the concerns and expectations of our stakeholders. Going forward, we will continue to engage with all groups of stakeholders under the direct influence of our operations actively to understand their thoughts and concerns.

In order to maintain an effective communication with our stakeholders, we have established a variety of communication channels, including questionnaire, annual general meetings, phone calls, site visits, employee performance evaluation, company team activities and social platforms.

Communication channels

Employees

- Employee performance evaluation
- Regular department briefings
- Regular safety meetings
- Diversified trainings
- Team building activities
- Recreational competitions
- Regular union activities
- Online questionnaires
- Continuous communication

Investors and shareholders

- Annual general meetings
- Interview and telephone conferences
- Corporate communications
- Annual and interim reports
- Result announcements
- Company website

Government authorities and regulatory authorities

- Daily operations or communications
- Regular meetings
- Online questionnaires

Suppliers

- Review and evaluation
- Regular meetings
- Site visits
- Online questionnaires

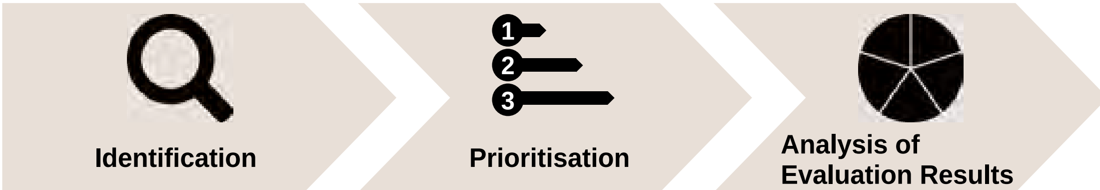
Other business partners

- Communications in daily operations
- Regular meetings
- Online questionnaires

Customers

- Online questionnaires
- WeChat official account
- Communications in daily operations
- Regular meetings
- Customers review process

MATERIALITY EVALUATION



Identification

In the process of materiality evaluation, we determine material issues related to the Group mainly by reference to the Environmental, Social and Governance Reporting Guide issued by the Stock Exchange and make relevant disclosures in this report.

Prioritisation

We use various methods, including online questionnaire survey, to invite stakeholders to address the materiality of each sustainable development issue and feedback on the Group's sustainable development policies to consolidate the outcome of communications with stakeholders and determine the overall materiality of each issue.

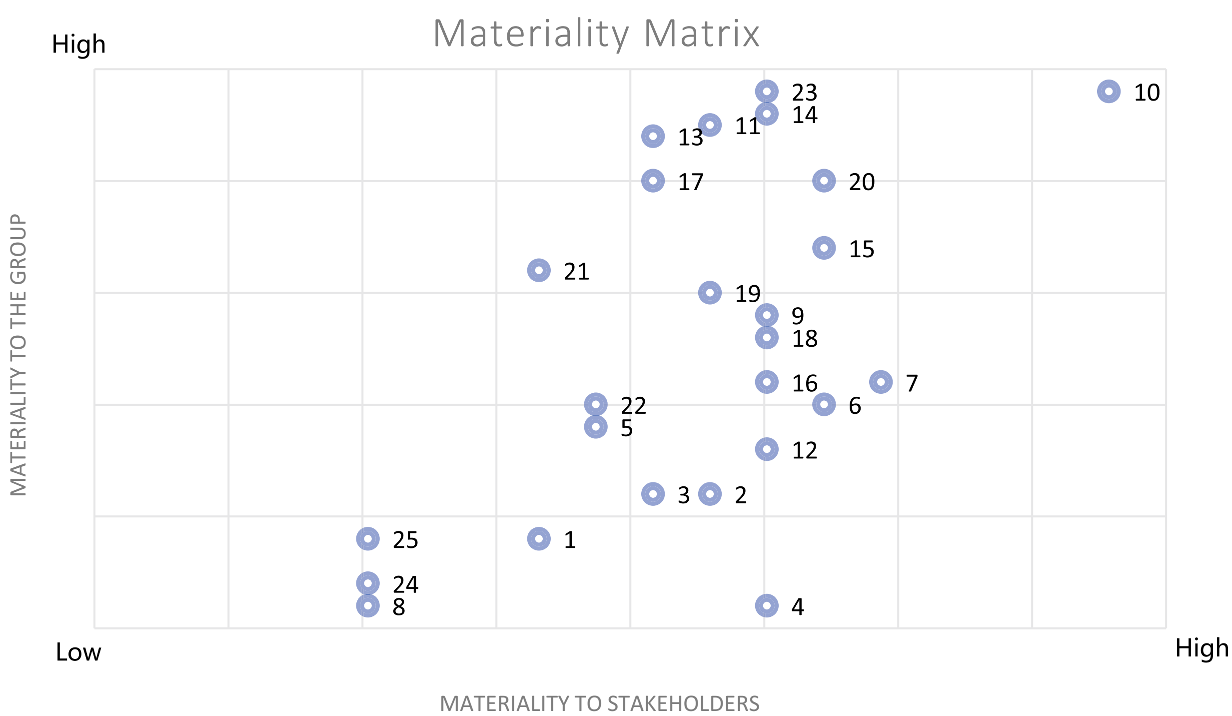
Analysis of Evaluation Results

The conclusion derived from identification and priovitisation is submitted to the senior management of the Group for discussion to determine the material issues for this report.

EVALUATION OF MATERIALITY MATRIX

Through our engagement with stakeholders and collection of their opinions, we have identified 25 material issues on sustainable development relating to our business, which are prioritised on the basis of their materiality to the Group and to stakeholders. We formulated a materiality matrix below, which clearly shows the issues of greatest concern to stakeholders and areas that require more of our attention in future development.

Environmental protection and green operation	Quality of working environment	Product and service liabilities	Operational practices	Community contribution
1) Greenhouse gas emissions	8) Diversity and equal opportunity	14) Product and service quality	21) Supply chain management	24) Participation in charitable activities
2) Air emissions	9) Employment relationships and communications	15) Product safety	22) Anti-fraud and corruption	25) Philanthropic donations
3) Waste water discharges	10) Occupational safety and health	16) Complaint resolution	23) Disaster contingency plans	
4) Waste treatment	11) Training and development	17) Intellectual property right		
5) Energy and water saving	12) Preventing child and forced labor	18) Customer privacy		
6) Green procurement	13) Employee welfare/ recreation	19) Customer satisfaction		
7) Use of natural resources		20) Technological research and development		



OUR APPROACH TO SUSTAINABLE DEVELOPMENT

Through the above evaluation of materiality matrix, we have identified the following five key areas as the Group's material issues on sustainable development. In the future, the Group will continue to review its sustainable development policies with a focus on such identified material issues, which are explained in details under the corresponding chapters in this report.

Five key issues	Corresponding chapter/module
Product and service quality	• Our product — "SALICACEAE" • Recognized by international certification institution • Quality control
Occupational safety and health	• Noise and dust management • Comprehensive safety guidelines and training activities • Our safety management system
Disaster contingency plans	• Disaster contingency plans
Training and development	• Talent recruitment • Developing talents
Employee welfare	• Caring for our staff

SUSTAINABLE AND EFFECTIVE INTERNAL CONTROL AND RISK MANAGEMENT

We believe that a sound internal control and risk management system is closely related to the sustainable development of a company. The Board of Directors of the Group has been constantly monitoring and discussing our internal control system and risk assessment. We have also established a risk assessment policy to help identifying factors which may have an adverse impact on the Group's business, including environmental protection, financial, operating, safety risks, and have taken corresponding risk control measures to reduce the consequences arising from such factors. Besides, the Audit Committee of the group will also continuously review our internal audit and risk management activities to ensure that an effective internal control system is in place.

To further improve the effectiveness of our risk management and internal control system, an independent service provider has been engaged to conduct an annual review of our risk management and internal control system, and corrective actions have been taken pursuant to its recommendation. We intend to constantly update and improve our risk management and internal control system in line with our sustainable development policies, so as to further achieve sustainable development of the Group.

PRODUCT HEALTH AND SAFETY

OUR PRODUCT — "SALICACEAE"

Our product "Salicaceae" is a pure solid wood, its value and performance has been maximized on the basis of preserving the natural properties of the logs through the biological optimization technology and advanced drying process. It is green, environment-friendly, nuisanceless and belonging to E0 grade of wood. Since its launch, "Salicaceae" has been promptly used in downstream production of solid wood flooring, furniture, doors, windows, loudspeaker boxes, indoor and outdoor cabins.

High stability

The properties of the wood are stable, insect-proof, mildew-proof and moisture-proof, anti-cracking and resist of deformation, and with controllable hardness and density. The finished products are more stable and durable.

Value of recycling and collection

The solid wood is durable, firm and tough, and can be reused even after discassembly. It can be recycled and it has the value of collection.

Pure and natural

Salicaceae is pure and natural with fine and transparent texture, less scarring, bright in color and has strong plasticity.

Pollution-free

Through the processing of biological environmental technology, Salicaceae is non-toxic, pollution-free, corrosion resistant and suitable for being used as the base material for home decoration and furniture.

RECOGNIZED BY INTERNATIONAL CERTIFICATION INSTITUTIONS

Jiangsu AMS successfully passed the strict audit of SGS during this year and was granted with certifications of Quality Management System (ISO 9001:2015), International Environmental Management System (ISO 14001:2015) and International Standards (ISO 45001:2018) of Occupational Health and Safety Management System (OHSMS). The contents of assessment include corporate profile, production capacity, certificates and photos, human resources, quality guarantee, research and development capabilities, corporate qualifications, etc. The audit team of SGS fully recognised the establishment, operation and implementation of the management system of Jiangsu AMS. We will always strictly comply with the standards and requirements of the above management systems and implement the corresponding policies to proactively prevent risks.

We operate with integrity and ensure safety with quality. In order to ensure the quality of products, we are committed to improving the research and development technology, and continuously monitoring the quality in order to produce innovative green and eco-friendly wood products which comply with international safety standards. We also strictly comply with the national and local regulations related to our businesses such as the Law of the PRC on Products Quality and the Law of the PRC on Protection of Consumer Rights and Interests in daily business activities in order to protect legal rights and interests of consumers.

QUALITY CONTROL

To ensure that the quality of products fulfil our requirements, we will send the products to designated quality supervision and testing centers regularly, and the testing procedure will be performed by qualified and independent third-party testing agency. The testing items include moisture content, density, formaldehyde emission, residual stress, hardness, water absorption, dry shrinkage rate, density, impact toughness of wood, hardness of wood, bending strength of wood, formaldehyde emission and etc. The formaldehyde emission of wood products handled by the Group is at a low level (less than 0.5mg/L) and complies with the E0 level of formaldehyde emission standards. The Group has also conducted testing according to the standards of Soaking Paper Laminated Wood Flooring (GB/T18102-2007) and Wood Flooring Heating (LY/T1700-2007).

During the Reporting Period, the Group has neither received any complaints from any regulatory authorities or any other person regarding any liability or quality issues of products, nor has the Group been subject to significant administrative sanctions or penalties for violation of relevant laws or regulations. In respect of product recall, no product is required to be recalled by the Group for the reasons of safety and health.

DEVELOPMENT ACHIEVEMENTS

The Group's wood impregnation liquids are key materials for the wood processing process. As a high-tech enterprise, our research and development department focuses on researching and developing and improving impregnation liquids, which does not only help to reduce production cost, but also further improves product quality and performance. As of 31 December 2019, we had a total of 47 patents and 8 applications for technical patents have been accepted. Looking forward, we will continue to recruit technical talents and purchase additional advanced research and development equipment and materials, committing to optimizing product quality and improving production technology, so as to strengthen our product development, increase operating efficiency and save costs, as well as inherit the concept of sustainable development.

JIANGSU AMS WON THE "OUTSTANDING CONTRIBUTION AWARD"

On 18 February 2019, Jiangsu Huai'an Industrial Park held a "Target Assessment and Style Development Conference of Huai'an Industrial Park" to grant the 2018 outstanding contribution award to Jiangsu AMS and offer encouragement and praise to us. The outstanding contribution award received by Jiangsu AMS presented our honor and pride, as well as the recognition and encouragement for our work. We believe that in the future, Hebei AMS and Jiangsu AMS will continue to work hard, make progress together and achieve better results.

HEBEI AMS WON THE THIRD CLASS OF BEIJING SCIENCE AND TECHNOLOGY AWARD

Beijing Science and Technology Award Conference and Construction Work Conference of National Science and Technology Innovation Center for 2019 were convened in Beijing Convention Center on 1 March 2019. In the conferences, the project of "Key Technology and Application of Eco-friendly Wood Preservation" (木材防腐處理綠色化關鍵技術與應用) jointly developed by Beijing Forestry University and Hebei AMS Wood Processing Co., Ltd. won Beijing Science and Technology Award (Third Class) (北京市科學技術獎三等獎) granted by State Council of the People's Republic of China. We believe that through the implementation and promotion of this project, we can effectively reduce the impact of existing wood preservation technologies on the environment without reducing the effect of wood anticorrosion, and significantly reduce the use of wood preservatives containing heavy metals in order to construct a new generation of wood preservation technology system with high efficiency, low toxicity, high permeability and low loss, which has promoted green and environmental friendly wood protection technologies. This award is a recognition of our research and development on projects and technologies. We will continue to promote scientific and technological innovation and make more constructive contributions to the society.

THE 23rd ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM (SPIEF)

The 23rd St. Petersburg International Economic Forum was held in St. Petersburg in June 2019 and the Group attended this forum together with state leaders. The forum mainly focused on the discussion of key economic issues which Russia, emerging markets and the whole world were facing, which was critical for the cooperation between China and Russia in the Far East Region and the internationalization development of enterprises. Meanwhile, it promotes efficient allocation for the enterprises in the PRC to carry out regional cooperation at a larger scale and a higher and deeper level. The members conducted in-depth exchanges and reached further cooperation consensus on the topics such as China-Russia economic cooperation and the cooperation of high utilization technology of artificial forests.

In the future, China Wood will be committed to the globalized promotion of green and environment-friendly solid wood, promoting the members of the alliance to seek common interests, mutual learning and reference, complement the advantages of each other, mutually beneficial in the cooperation on the basis of considering the national conditions of each other, so as to promote the common prosperity and make improvement in the modern wood industry in China and Russia. The conference gathered the heads, political leaders, experts and scholars, business leaders, news media and internet communities of various countries, with approximately 17,000 representatives from 143 countries and over 270 enterprises all over the world. This is an exchange opportunity for gaining deep insights and expanding business.

CHINA WOOD WON THE "OUTSTANDING CONTRIBUTION AWARD OF GLOBAL MODIFIED WOOD INDUSTRY"

The 1st International Forum of Wood Modification was held on 29 October 2019, and the Group had the honor to win the "Outstanding Contribution Award of Global Modified Wood Industry" granted by the organizing committee of International Forum of Wood Modification, including professors, supervisors of University of Goettingen, the president of German Wood Protection Association, the president of European Wood Modification Association, the director of Wood Conservation Development Center, the honorary president of China Wood Protection Industry Association, which recognized our contributions for the improvement and optimization of wood over the past ten years. The Group will continue to make efforts for improving wood function in the world by adhering to the goal of innovation.

OCCUPATIONAL HEALTH AND SAFETY

We have always been adhering to the principle of "People-oriented" to actively create a healthy, safe and friendly workplace. In June 2019, Jiangsu AMS obtained the certification of Occupational Health and Safety Management System (ISO 45001:2018), which was the third international standard certification awarded by the Group, indicating that our management in terms of occupational health and safety was recognized internationally.

We are committed to complying with the "Fire Protection Law" (《消防法》), the "Law of the People's Republic of China on Prevention and Control of Occupational Diseases" (《中華人民共和國職業病防治法》) and "Production Safety Law of the People's Republic of China" (《中華人民共和國安全生產法》). The Group is well aware that these laws and regulations are made to enhance production safety, prevent and reduce production accidents, protect the safety of people's lives and property and promote sustainable and sound development of economy and society, which are in line with our values on safety. Therefore, we have established a series of safety policies for production safety, which are further discussed below.

We conduct identification, analysis and assessment of risks on a regular basis, actively follow up high-risk activities and regularly carry out routine inspection and maintenance of equipment in the factory. We have also implemented a comprehensive safety management system and contingency plans, provided the departments with training on their working processes and safety guidelines, disseminated information on occupational safety and health to all the staff constantly, so as to be committed to reducing safety risks. In addition, we arrange physical examinations for employees every year to ensure that they are healthy at work. We have been firmly obeying the laws, regulations and policies of the state and relevant departments. During the Reporting Period, we did not encounter any work-related injuries. In the future, we will continue to maintain a sustainable working environment with the goal of "zero accidents".

NOISE AND DUST MANAGEMENT

Part of our factory plants are leased to third parties for production purpose and these tenants may generate a lot of noises and dusts during the production. To enhance the control over noises and dusts, we have established a range of controlling procedures specifically for these two major hazards, and tenants are required to strictly comply with such procedures, in order to create a good and healthy working environment.

In respect of daily inspection, our staff in the security division will regularly test the level of noises and dusts in relevant workshops. In terms of personal protection measures for employees, we mandatorily require employees working in relevant workshops to wear gloves, earplugs and masks to protect their personal safety. In addition, in order to reduce dusts in the production environment, workshops are equipped with dust collection equipment. Workers on site are required to frequently clean the floor to minimize saw dusts left, with dust pipeline kept closed. Transporting and centrally handling dusts through closed pipelines can effectively reduce the impact of dusts, thereby improving the quality of production environment. Meanwhile, we have installed spark detectors and automated fire extinguishing system in the workshops to prevent accidents such as massive fire and even explosion from occurring.

COMPREHENSIVE SAFETY GUIDELINES AND TRAINING ACTIVITIES

We have established the "Safety Management System", the "Regulation and Maintenance System for Dust Meters and Noise Instruments", the "Fire Fighting Equipment Management System", the "Fire Control Room Duty Management Procedures", the "Handling Measures for Abnormal Dusts and Noises" and various instructions on safe operation procedures, which list out the safety management methods for equipment, routine inspection procedures for operators, inspection procedures before and after use of equipment, and wearing requirements in details. In addition to reducing the possibility of industrial accidents, these guidelines will also ensure that our safety management is standardized.

We always emphasis the importance on the safety awareness and knowledge training to all employees, and devote our resources to the safety training of employees in a bid to promote the safety quality of employees, prevent injury and fatal accidents and mitigate safety risk. Therefore, apart from the basis training for new employees, we have also provided all-rounded safety trainings for the year, including:

- training on code of conduct for employees
- training on occupational health and safety knowledge
- training on firefighting knowledge
- training on forklift driving safety
- training on daily repairing and maintenance of forklift
- training and guidance on the preparation of ISO systems
- introduction to production laws and regulations
- training on the rules for charging electric vehicle in factory
- specific safety training for dust-caused explosion
- training on identification of hazardous sources and protection
- training on first aid knowledge
- training for external construction and special operations

OUR SAFETY MANAGEMENT SYSTEM

In order to ensure production safety, we strictly comply with the national laws, regulations and related rules on production safety, and have formulated the Safety Management System which clearly defines the requirements and management of production safety for various departments, with a view to reduce the risk of safety management and creating a safe working environment. We undertake to:

- comply with national laws, regulations and rules, as well as all internal rules and regulations, and perform our duties stipulated in job responsibilities of the Company;
- provide safety production knowledge trainings for employees in security division and offer on-site guidance for safety management regularly;
- carry out daily inspections on targeted areas including dust removal towers in workshops, fire pump rooms and fire cisterns, equipment and electrical appliances, evacuation access and forklift operations;
- rectify, review and follow-up the items identified not meeting the requirements during fire safety checks immediately;
- strengthen inspection to ensure the normal production of the Company and prevent fatal accidents and major fire accidents from occurring.

DISASTER CONTINGENCY PLANS

We have formulated a contingency plan, with a view to achieving safe production through thorough preparations, ensuring the personal and property safety of all employees under emergencies, preventing serious accidents and mitigating the loss and environmental pollution caused by accidents. To allow the contingency plan being more complete and comprehensive, we have referenced to different local rules while establishing the plan, such as the "Law on Response to Emergencies", "Safe Production Law", "Fire Protection Law", "Production Management Regulations", the "Opinion of the People's Government of Jiangsu Province on Enhancing the Development of Safe Production Contingency and Rescue System", the "Guidelines for Production and Operating Entities to Prepare Contingency Plans for Production Safety Accidents, the "General Technical Requirements for Gas Detecting Alarms in Operational Environment" and the "Selection Standard of Individual Protective Equipment", etc.

- **Management and Control of Safety Risks:** We have conducted the risk analysis for the existing operation model to capture potential risks in the production and processing procedures, and based on the identified hazardous factors, we have formulated precautions and have prepared fire-fighting equipment in advance. We hope that all preventive work can effectively help us in implementing the emergency plans so as to ensure the safety of employees and reduce the impact on the environment.

- **Emergency Rescue Group:** To avoid chaos when an accident happened, we have set up an emergency rescue command group to be the commander and leader during emergency rescue, and have clearly stated the emergency rescue responsibilities of each department, for example, the human resources department is responsible for first aid, the security department is responsible for evacuation, the security division is responsible for reporting and alarming, and the technology department is responsible for the management of electricity, water and gas facilities and rescue with equipment on site. Besides, we will arrange special trainings for those required to possess special skills in the emergency rescue command group, for example the training on the use of fire-fighting equipment and first aid techniques, so as to enhance the ability of employees to handle emergencies.

- **Rectification on Safety Inspection:** We conduct regular emergency drills and fire training to enhance employee's ability to use first aid tools, handle emergencies and save themselves through the simulation of disasters. We also inspect all emergency exits regularly to ensure that they are kept clean in an effort to achieve "zero loss". After completing the drills, we also organize a summary exhibition to allow employees to review and find out the deficiencies in the emergency rescue plan, so that we are more adequately prepared for disasters.

- **Follow-up Investigation:** We place great emphasis on investigations after the accident to prevent it from reoccurring. When an accident occurs, the relevant department shall prepare an accident report to thoroughly understand and analyze the causes of the accident and make recommendations for improvement. We will also investigate the accountability of the accident and strengthen relevant training and education for employees, and take practical preventive measures to minimize the probability of accidents.

To maintain a safe working environment and avoid any unnecessary accidents, we implemented the following measures during the Reporting Period:

- provide employees with necessary information, guidance, training and supervision on safety management;

- check for any potential danger and fix it immediately;

- prohibit smoking in the area of our workshop to reduce the possibility of accident and improve the quality of indoor air;

- understand the update in occupational safety legislation and regulations actively and take additional safety measures to ensure the safety of employees as necessary;

- hire a person with registered safety engineer qualification to ensure the proper operation of production equipment and strength safety management.

During the Reporting Period, as far as the Directors are aware, the Group has not been involved in significant administrative sanctions or penalties for breaching the relevant laws and regulations concerning the provision of a safe working environment and protection for employees from occupational hazards. In addition, the Group has not received any complaints or notices from the regulatory authorities regarding violations of safety related laws and regulations.

THE MEANING OF "AMS"

Although the forests provide the foundation for ecological industries with huge potential, they are not inexhaustible. The forests, known as the "Lungs of the Earth", play an important role in stabilizing ecological diversity, and unlimited exploitation of them will cause chain reaction and damage the ecology. We can make better use of forest resources and promote the development of ecological economy only when a healthy forest ecological cycle is maintained. No industry can be grown at the cost of the environment. China has stopped commercial logging of natural forests since 2016, indicating that there is the need to transform the wood industry innovatively. In order to solve the problem of growing demand with limited supply, we must make good use of the artificial forest resources. We strive to promote the wood industry with innovative technologies, raise the status of the new high value-added wood utilization industry in the wood industry, lead more wood companies entering into the field of the high value-added utilization of low-quality wood, cooperate with other wood companies to transform and upgrade the traditional wood industry to an ecological wood industry through resource sharing, cooperation in technology development and cooperation in product supply. We hope to promote the development in the artificial fast-growing forest timber industry while meeting the demand of solid wood market, so as to achieve the goal of saving and protecting natural forest resources.

Environmental, Social and Governance Report

As a pioneer in the wood optimization industry, the Group actively adopts various environmental protection measures to ensure compliance with relevant laws and regulations on environmental protection, such as the "Environmental Protection Law of the PRC"（中華人民共和國環境保護法）, the "Law of the PRC on the Prevention and Control of Water Pollution"（中華人民共和國水污染防治法）, the "Law of the PRC on the Prevention and Control of Atmospheric Pollution"（中華人民共和國大氣污染防治法）, the "Law of the PRC on the Prevention and Control of Environmental Noise Pollution"（中華人民共和國環境噪聲污染防治法）and the "Law of the PRC on the Prevention and Control of Environmental Pollution caused by Solid Waste"（中華人民共和國固體廢物污染環境防治法）, etc., and the regulatory items involved are mainly air pollution, sewage, noise pollution and waste.

We always adhere to the vision of "protecting the forest", and apply the concept of low-carbon, environment-friendly and green sustainable development to a series of production activities such as research and development, production, sales, and after-sales services. We are committed to developing high value-added utilization of low-quality wood in a bid to replace precious logs with abundant and fast-growing low-quality woods. We use exclusive biological optimization technology to change the woodiness of low-quality woods so that their hardness, strength, and elasticity are fully improved. In addition to natural properties of logs, they are strengthened in terms of resistance in corrosion, moisture, mold resistance, crack and deformation, and are easily processed to become an ideal substitute for natural precious logs and catering to a range of applications such as furniture and interior renovation. Our wood products can be used as ideal substitutes for high-end natural logs, thereby effectively reducing deforestation, which will not only protect forests, but also help mitigate the negative impact of climate change on human beings and the planet.

During the Reporting Period, to the knowledge of the Directors, neither has the Group received any complaint from any regulatory authority or any other person regarding any environmental concerns, nor has there been any incident of any material impact on the environment as a result of its manufacturing activities. During the Reporting Period, the Group has not been subject to major administrative sanctions or penalties for violation of environmental laws or regulations.

SUMMARY OF SUSTAINABLE DEVELOPMENT PERFORMANCE

Our environmental performance during the Reporting Period is summarized below.

	2019	2018	
Air Emissions			
Nitrogen Oxides (NO_X)	62.85	29.46	Kilograms
Sulfur Oxides (SO_X)	7.44	0.57	Kilograms
Particulate Matters (PM)	2.56	2.17	Kilograms
Greenhouse Gas			
Total Greenhouse Gas Emissions	1,087.17	723.37	Tonnes of carbon dioxide equivalent
Direct Emission (Scope 1)	140.56	103.97	Tonnes of carbon dioxide equivalent
Indirect Emission (Scope 2)	1,764.08	1,436.87	Tonnes of carbon dioxide equivalent
Greenhouse Gas Removal - Tree plantation (Scope 1)	817.47	817.47	Tonnes of carbon dioxide equivalent
Intensity of Greenhouse Gas Emissions	10.04	6.70	Kilograms of carbon dioxide equivalent/square meter
Non-hazardous Wastes[2]			
Total Production and Disposal of Non-hazardous Wastes	1.23	0.77	Tonnes
Intensity of Non-hazardous Wastes[1]	11.32	7.09	Grams/square meter
Energy Consumption			
Total Energy Consumption	2,836.60	2,215.39	Thousands of Kilo Watts Hour
Purchased Electricity	2,296.82	1,859.44	Thousands of Kilo Watts Hour
Unleaded Petrol	354.10	355.95	Thousands of Kilo Watts Hour
Natural Gas[3]	185.68	—	Thousands of Kilo Watts Hour
Intensity of Energy Consumption[1]	0.03	0.02	Thousands of Kilo Watts Hour/square meter
Water Consumption[4]			
Total Water Consumption	28,218.00	19,389.00	Cubic meter
Intensity of Water Consumption[1]	0.26	0.26	Cubic meter/Square meter

1 The emission intensity data is based on the gross floor area of the Group's operation sites in Hong Kong, Hebei and Jiangsu (excluding leased out areas).

2 The Group's business operation does not involve any use of packaging materials and generate of hazardous wastes.

3 The Group's factory in Handan, Hebei Province has completed the upgrading of production equipment and improvement of production processes, and has been officially put into production in 2019. Therefore, we included statistics and emissions calculations related to natural gas for the year.

4 Water consumption only covers the factory in Jiangsu and Hebei as relevant data is not available for Hong Kong office, which uses shared water utility, and Hebei AMS has changed from using well water to tap water in order to meet the water requirements of the local government. During the Reporting Period, we had no material difficulty in sourcing water.

EMISSION MANAGEMENT

The Group's wood processing business does not generate significant emissions. Nonetheless, we remain committed to minimizing the impact on nature by adopting other environmental protection measures and policies. The vehicles used by the Group for daily operations generate greenhouse gas and air emissions in trace amount. Besides, our production facilities also indirectly emit greenhouse gas due to the use of natural gas and electricity. Measures to reduce greenhouse gas emissions are described under the section entitled "Energy Saving". We will also conduct sampling inspections at the sewage outlets to ensure that they are in compliance with sewage discharge requirements, which include indicators such as carcinogens, dioxins, and ammonia nitrogen.

WASTE MANAGEMENT

Except for household waste and office paper, the Group has not produced other hazardous or non-hazardous waste. As far as the use of paper is concerned, our main waste is office paper. Although the nature of our business does not involve the use of large amount of paper, we have taken a range of measures to reduce paper consumption, including replacing paper files with electronic system, double-sided printing or photocopying, and recycling or reusing waste paper. Meanwhile, employees are also encouraged to bring their own cups to avoid the use of paper cups.

The Group has proactively adopted measures to reduce waste from the source, to recycle and then reuse. Our business is mainly wood processing, in which the major raw materials used are the soaking fluid developed from our own research. To reduce wastes, the Group recycles impregnation liquids left in the production process and reuses related containers instead of disposal after using, hence implementing a recycling system of impregnation liquids into the production process and achieving "zero waste" throughout the wood processing procedure.

ENVIRONMENTAL ASSESSMENT

The use of impregnation fluid in wood processing is of utmost importance to our business, but we never overlook the possible impacts of impregnation fluid on the environment. Our products have passed 175 substances test on the "Substances of Very High Concern" ("SVHC") and comply with the "European REACH Regulations" (EC) No.1907/2006, (a regulation promulgated by the European Parliament and the European Commission in respect of the registration, evaluation, authorization and restriction of chemicals), which contains the provisions on the use of chemicals and their potential impact on the human body and the environment. The Group's products also passed the requirements promulgated by European Chemicals Agency ("ECHA") and the test of 19 heavy metal elements in 2014, which further proved that the Group's products are green, eco-friendly and pollution-free. We also test the appearance, pH value, solid content and free formaldehyde content of the impregnation fluid regularly to ensure that the optimizers we use meet the standards. Therefore, the impregnation fluid we use will not cause negative impact on the human body and the environment.

In addition, we have restricted the use of chemicals such as formaldehyde and urea-formaldehyde glue during the production process to ensure that all impregnation liquids would be impregnated and absorbed into treated wood products, and to avoid adverse impact on the environment or product health and safety. No toxic, harmful or restricted chemicals have been used in our operations.

ENERGY SAVING

During the Reporting Period, the Group has reduced energy consumption and greenhouse gas emission through the following energy-saving measures:

Saving Water	Saving Electricity
When any leaks occur on any equipment, perform maintenance procedures immediately to avoid waste	Install solar lights or replace with LED energy-saving lamps as much as possible to save electricity
Educate employees to save water so as to increase their awareness of water conservation	Encourage employees to switch off unused electronic equipment when they do not need to use or after work
Check the water supply system and other water supply facilities regularly	Replace old appliances with electrical devices with higher energy efficiency
Post reminders besides water taps and power switches to encourage our employees to save energy	

In addition to the above energy-saving measures, the Group has also reduced the energy consumption at the operational level. In order to reduce the damage to the atmospheric environment and implement energy conservation and emission reduction, we actively responded to the environmental policies 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》) launched by the Chinese government. The coal-fired boilers of the Group's production base in Wei County, Handan City, Hebei Province, were replaced by gas boilers, realizing green and environment-friendly production. Natural gas is a high-quality, efficient, green, clean and low-carbon energy, with almost no emission of smoke and dust in the process of utilization, and much lower emission of sulfur dioxide and nitrogen oxides than coal. Therefore, the operation of this project will play a positive role in promoting the environmental protection of Wei County. The Technical Transformation Project for Clean Energy of Hebei AMS was completed at the end of July 2019, indicating that the AMS clean energy was officially put into operation.

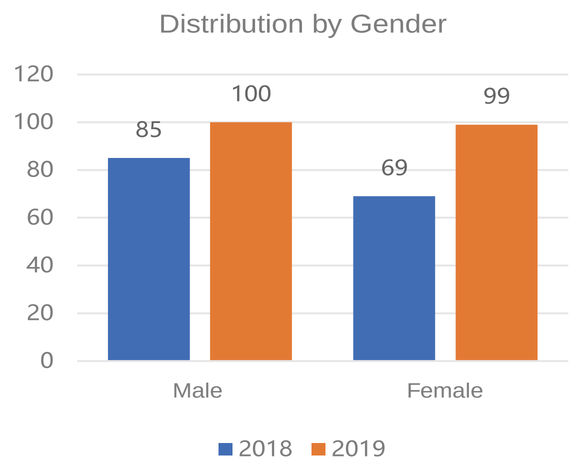
In addition, we gradually carry out business transformation, changing our main business from the former production and sales of processed wood products to the provision of wood processing services, so as to enhance our core research value of wood optimization.

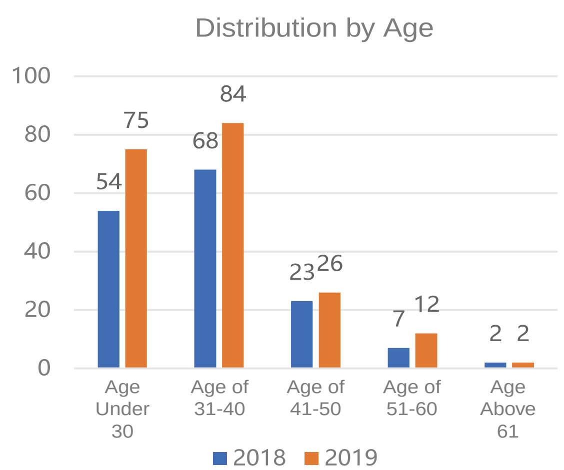
TALENTS RECRUITMENT

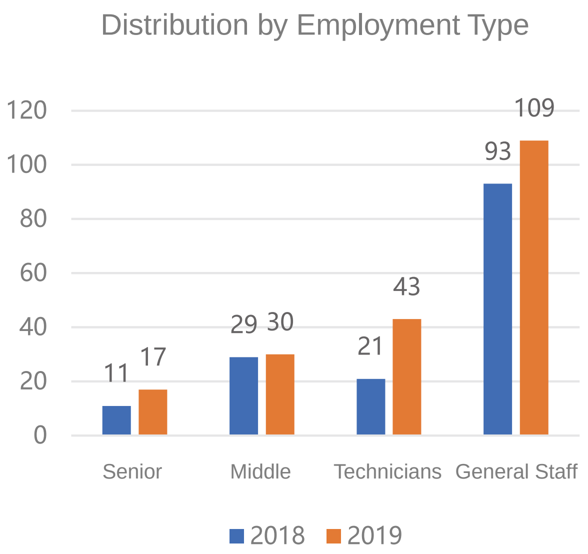
We strictly abide by the "Labor Law of the People's Republic of China", the "Employment Contract Law of the People's Republic of China" and other laws and regulations designed for employment and labor practices, and proactively protect the legitimate interest of laborers. We believe that attracting talents with passion and proper skills will be beneficial to the long-term development of the Group. We recruit, promote or assess talents under the principle of fairness, openness, equality and selection on merit, and take into account the assessment factors such as their ability, experience and performance, which in any way will not be affected by age, marriage, race, skin color, gender, religion, nationality and other factors not related to the working ability. In order to attract and retain talents, we expect to assess the performance-based indicators of the staff regularly through the mechanism of rewards and punishments, and review the staff's promotion opportunities and adjustment of compensation package based on the results of assessment. We also expect to ensure we can offer compensations with market competitiveness to the staff by continuously improving our performance assessment and compensation benefit system, so as to enhance the staff's satisfaction to work and their sense of belonging to the Company. In addition, we have also formulated a set of established procedures to deal with the resignation or dismissal of the staff. Our human resource department will also investigate such resignation so as to review if there is any unfair treatment or discrimination.

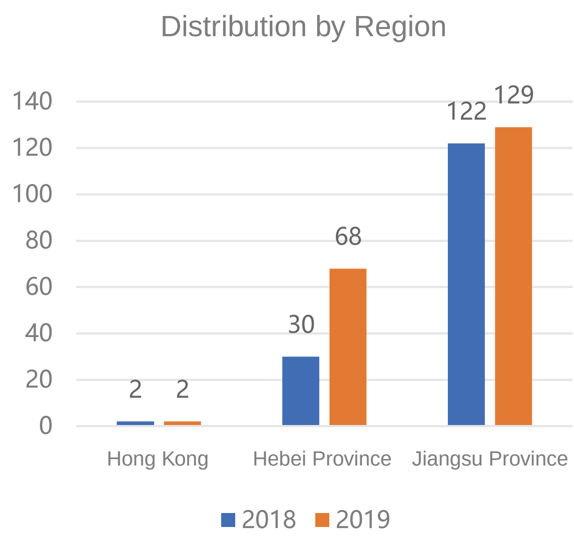
In addition to paying the social insurance for the staff as required by the local government, including pension insurance, medical care insurance, unemployment insurance, work-related injury insurance, maternity insurance and contributions to the housing provident fund, we also prohibit from employing child laborers and forced laborers in our business operation. In order to comply with the laws, our human resource department will review the background of candidates and obtain their identification proofs to verify their ages so as to ensure no child labour is employed. Furthermore, if our employees work overtime, we will pay them overtime wages according to the requirements and strictly abide by the statutory employment standards in respect of salary, working hour, rest time, etc. We will also check the working hours of our employees to prevent the occurrence of any forced labor. During the Reporting Period, there were neither child labor nor forced labor cases within the Group.

Staff Distribution[5]



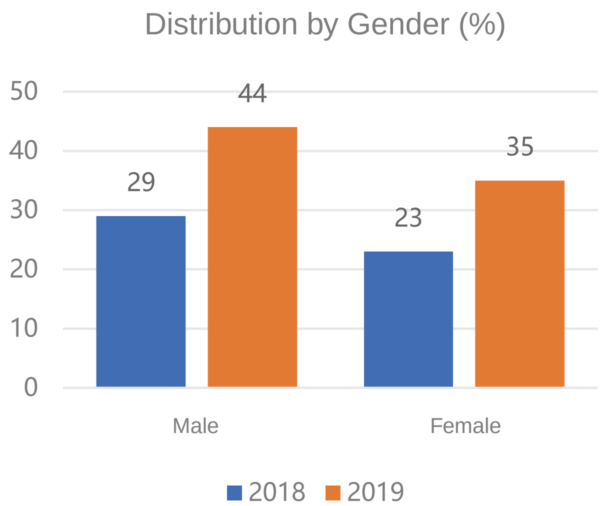


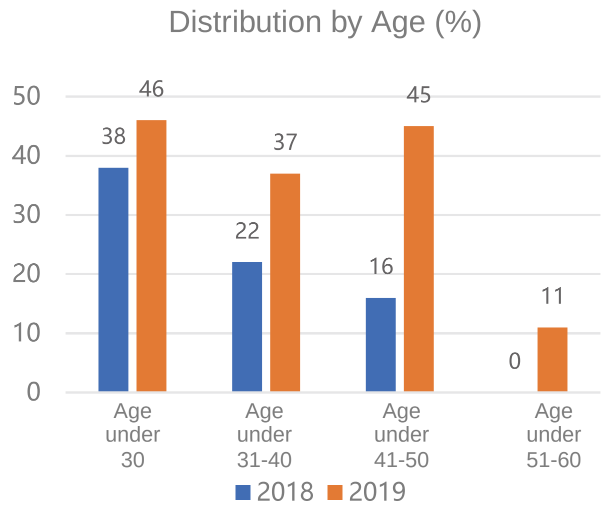


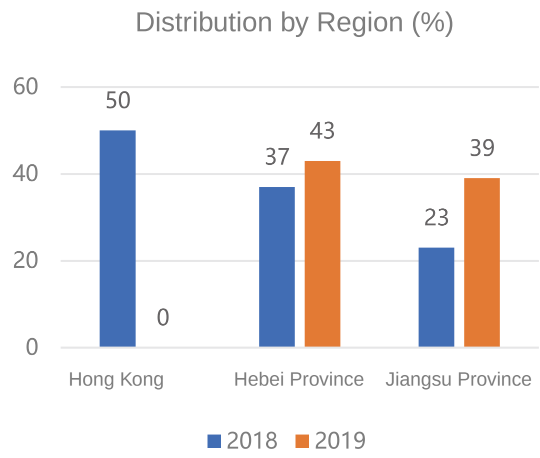


5 In 2018, the total number of employees was 154, with all were full-time employees; in 2019, the total number of employees was 199, including 197 full-time employees and 2 part-time employees.

Employee Turnover Rate[6]







6 The total number of employees who resigned was 41 in 2018 and the total number of employee who resigned was 70 in 2019. The employee turnover rate was based on the number of employees who resigned during that year and the average number of employees during that year.

CARING FOR OUR STAFF

We pay high attention to the physical and mental health of our staff and hope to develop a healthy and harmonious corporate culture in order to create a pleasant working environment. In addition to providing employees with leaves as required by laws, we also continued to hold various activities this year that are good for their physical and mental health to let our staff work in an environment full of love and care. In the special holidays, such as the Women's Day on 8 March and the Mid-Autumn Festival, and at the end of every year, we offer benefits and gifts to employees. Besides, we also hold birthday parties for our staff to express our love and blessings. We hope that our staff can have the sense of belonging to us while working industriously.

In addition, we proactively provide opportunities for all employees and the senior management to understand each other and learn from each other. We hold various team activities regularly such as outdoor training, the work-break exercise contests, labor union contests, etc., with a view to releasing and expanding the potential of our staff through a series of team building activities so as to enhance their personal mental quality while improving their team cooperation spirits, which in turn to enhance our cohesiveness and inherit our corporate culture.

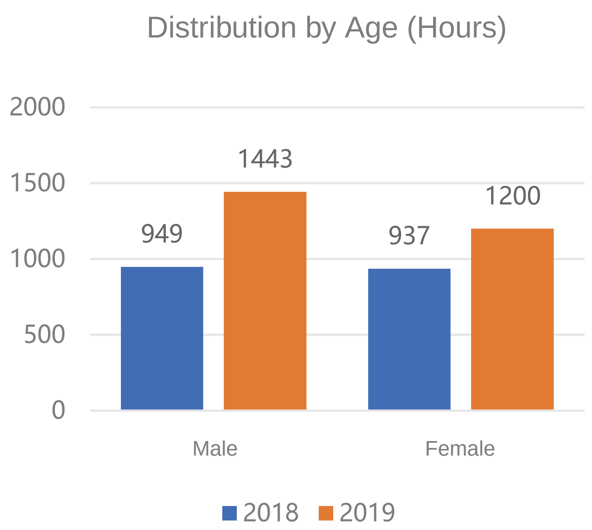
We value our staff and are willing to listen and respond to their valuable suggestions. We hope we can create a healthy working environment with our employees. We encourage our staff to give suggestions and opinions directly to the department heads on a regular basis so as to improve the communication efficiency, and let the department heads understand the situations of the staff and report to the management if necessary.

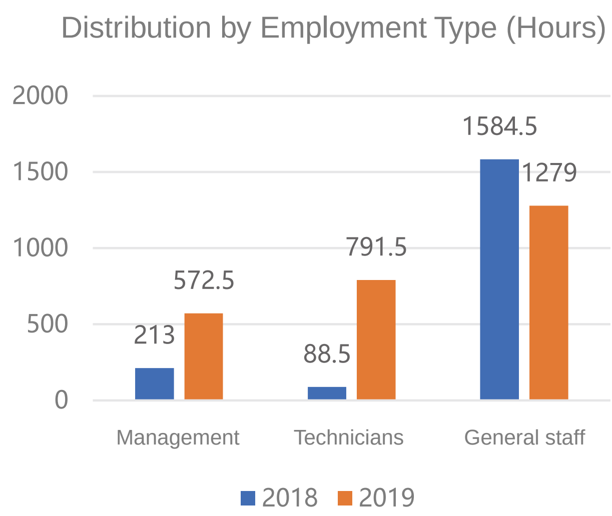



DEVELOPING TALENTS

We always value our staff as our most precious assets, we are very concerned about their personal development. We are committed to providing them with abundant training resources and ample development opportunities. We have an annual training scheme in place to assist our staff to improve and explore themselves and to help them master the knowledge and process relating to our business. We offer welcome activities and induction training programs so as to help them to understand our corporate culture, our products and how all departments are operated. We will also arrange interim training for the staff to enhance their corporate cultural senses and other on-job trainings related to their positions. For middle management, we will provide more trainings in respect of objective setting, efficient communication and management. Meanwhile, we regularly assess the efficiency and effectiveness of our programs and formulate policies that are more applicable for our staff, so as to provide the staff with most suitable trainings. We believe that ample training resources and development opportunities can enhance our staff's working capabilities and professional skills, help our staff to reach their potential in a healthy, safe and respectful working environment, as well as enhance the competitiveness of the Group, and thus promote our sustainable business development.

Analysis of Training Data[7]





7 In 2018, the total number of training hours was 1,886 and the average number of training hours of each staff was 12.5; in 2019, the total number of training hours was 2,643 and the average number of training hours of each staff was 13.28.

SUPPLY CHAIN MANAGEMENT

The performance and conduct of the suppliers may have indirect impact on our product quality, service and reputation. We endeavor to perform our environmental and social responsibility in our operation, while expecting that our suppliers can share the common belief in acting with integrity, treating all stakeholders fairly, protecting the environment and complying with all applicable regulations. Before selecting suppliers for procurement of raw materials, we would first consider their reputation and qualifications compare with other potential suppliers, we would clearly explain our requirements for environment and social responsibility before signing contract with them. We will continuously monitor and assess the product quality, service quality and professional integrity of our suppliers, so as to ensure that they meet our requirements. We strive to establish long-term partnership with our suppliers so as to achieve mutual benefits.

We have conducted regular review on all of our suppliers and formulated the "Records of Assessment of Suppliers" for different departments to complete, such as the quality management center, the production management center and the supply chain center, to provide ratings according to their sample testing results, consumption of materials, supply capacity, guaranteed quality, delivery, deployment, etc., so as to select the suppliers who meet the requirements of the Group. The suppliers who passed our evaluation process can become our qualified suppliers and will be included in the "List of Qualified Suppliers of Wood-based Panels". We conduct regular follow-up evaluation of the suppliers and will suspend our cooperation with them until the circumstance has been improved if they failed to meet the policy of the Group, or committed any irregularities that do not meet our contractual requirements, or the products they supplied did not meet the production requirements, so that our high quality products and services can be maintained.

SOUND CUSTOMER SERVICE AND PROTECTION OF CUSTOMERS' PRIVACY

The Group always communicates with its customers to fully understand and meet their short-term and long-term demands. Our sales department is responsible for handling customers' complaints and following up with customers' feedback until their complaints are addressed, so as to raise the level of customer satisfaction and the standards for product quality management. On the other hand, we respect and value the intellectual property rights, and avoid from using pirated software and copyright infringement in our business.

In respect of privacy, we have signed confidential agreements with all the staff with the access to confidential or sensible information in the daily operations, so that they are clearly aware of their confidentiality responsibility. In addition, our IT department has installed encryption software on our business computers to prevent any unauthorized access to all information without encryption by competent personnel, so as to minimize the risks of leakage of confidential or sensible information (including the information on customers) without authorization.

PROHIBITING CORRUPTION

We regard integrity and trustworthiness as our cornerstone, and proactively maintain clean governance with zero tolerance to any form of bribery, extortion, fraud and money laundering. The Group has prepared the "Employee Handbook", the "Anti-money Laundering Management System" and the "Anti-Corruption and Advocacy Management System", which clearly stated the matters that the employees should pay attention to when conducting business activities, in order to prevent bribery, corruption, money laundering, and conflicts of interest.

In order to enhance employees' risk awareness of the corruption behaviors, professional ethnics, anti-corruption and integrity advocacy, we strictly require our staff to fully comply with the relevant requirements specified in the Employee Handbook, and not to seek for personal gains through relationships, accept any bribes or embezzle corporate funds, etc. Anyone who abuses position power to engage in malpractices for personal gains, gives or accepts any bribes or those with serious dereliction of duty shall be subject to severe punishment. We also hold trainings in respect of anti-corruption for the staff on an irregular basis, to explain and provide the guidelines for identifying misconduct, so as to further strengthen their awareness of corruption and money laundering, which helps us to improve our work in prohibility money laundering.

In addition, we have established a whistle blowing channel for all employees to escalate any suspicious misconduct, fraud or improper, unfair or unethical treatment by ways of telephone, letter, e-mail and face-to-face communication. Any identified misconduct will be investigated into promptly and thoroughly and referred to the law enforcement authority for follow-up where necessary. As the Group is concerned, laws and regulations applicable to our business with a significant influence include the "Supervision Law of the People's Republic of China", the "Prevention of Bribery Ordinance" and other related laws and regulations. In the future, we will continue to comply with relevant requirements. During the Reporting Period, the Group did not have any violations related to violation of relevant anti-corruption laws and regulations. We will continue to abide by the relevant regulations in the future.

In addition to the culture of integrity of the Group, our sound corporate governance also plays an important role in promoting the sustainable development of the Group, and details of the corporate governance of the Group can be found in the "Corporate Governance Report".

GIVING BACK TO THE SOCIETY

We uphold our giving-back spirit of "Taking it from the Society and Giving it Back to the Society", and always committed to care for the communities, to pursue community betterment and to make contribution to the society. During the Year, we held a blood donation with staff proactively participated, which had fully demonstrated our spirit of selflessness and helpful, thus in turn spreading our love to those in need. We believe that the "cohesion of power can save life", and hope we can advocate the spirit of contribution to the society and encourage more people to become regular blood donators through cooperating with different sectors in the society in order to save more precious life.

In addition, we cooperated with the College of Furnishings and Industrial Design of Nanjing Forestry University, provided them with the training base, exchanged ideas and discussed the college-enterprise cooperation with them, the establishment of work stations for postgraduates, engineering centre, joint scientific research projects, etc. We believe that strengthening the college-enterprise cooperation can proactively and effectively improve our technologies, sustainable development and promote the application of wood-based panels. Meanwhile, we can also act as a platform for the college for visiting, practicing, scientific research, etc. We hope to facilitate the development of production and education, and promote the popularity of the green wood household industry.

As one of the corporate citizens, we will continue to hold various charity activities and perform our social responsibilities as an enterprise, so as to contribute every bit of our efforts to the social charity.



THE HONG KONG STOCK EXCHANGE GUIDELINE CONTENT INDEX FOR ESG REPORT

Main Areas, Levels, General Disclosure and Key Performance Index		Chapter /Statement	Page
A. Environment			
Level A1: Emissions			
General Disclosure	Regarding emissions and emissions of greenhouse gases, emissions to water and land, generation of harmful and non-hazardous wastes etc.: (a) Policies; and (b) Compliance with relevant laws and regulations that have a significant impact on the issuer	• The meaning of "AMS" • Summary of sustainable development performance	P.53 P.55
Key Performance Index A1.1	Types of emissions and related emissions data.	• Summary of sustainable development performance	P.55
Key Performance Index A1.2	Total greenhouse gas emissions (in tons) and (if applicable) density (if calculated per unit of output, per facility).	• Summary of sustainable development performance	P.55
Key Performance Index A1.3	The total amount of hazardous wastes generated (in tons) and (if applicable) the density (if calculated per unit of output, per facility).	The Group did not generate any hazardous wastes during its operations.	N/A
Key Performance Index A1.4	The total amount of non-hazardous wastes generated (in tons) and (if applicable) the density (if calculated per unit of output, per facility).	• Summary of sustainable development performance	P.55
Key Performance Index A1.5	Describe emission reduction measures and results.	• Energy saving	P.57
Key Performance Index A1.6	Describe ways to treat hazardous and non-hazardous wastes and measures to reduce production and the results.	• Waste management	P.56
Level A2: Resource Utility			
General Disclosure	Policies for the effective use of resources including energy, water, and other raw materials.	• The meaning of "AMS"	P.53
Key Performance Index A2.1	The total consumption (in thousands of kWh) and density (for example, calculated in units of production, per facility) of direct and/or indirect energy (such as electricity, gas or oil) by type.	• Summary of sustainable development performance	P.55
Key Performance Index A2.2	Total water consumption and density (if calculated in units of production per facility).	• Summary of sustainable development performance	P.55
Key Performance Index A2.3	Describe energy use efficiency plans and results.	• Energy saving	P.57

Main Areas, Levels, General Disclosure and Key Performance Index		Chapter /Statement	Page
Key Performance Index A2.4	Describe any problems that may arise from the application of water, as well as plans to improve water use efficiency and the results achieved.	• Energy saving	P.57
Key Performance Index A2.5	The total amount of packaging materials used in finished products (in tons) and (if applicable) per unit of production.	The Group did not produce any packaging materials in its operations.	N/A
Level A3: Environment and Natural Resources			
General Disclosure	Reduce the issuer's policies that have a significant impact on the environment and natural resources.	• The meaning of "AMS" • Environmental assessment • Energy saving	P.53 P.56 P.57
Key Performance Index A3.1	Describe the significant impact of business activities on the environment and natural resources and have taken actions to manage the impact.	• The meaning of "AMS" • Environmental assessment • Energy saving	P.53 P.56 P.57
B. Society **Employment and Labor Practices**			
Level B1: Employment			
General Disclosure	Regarding remuneration and dismissal, recruitment and promotion, working hours, holidays, equal opportunities, diversification, anti-discrimination and other benefits: (a) Policies; and (b) information on compliance with relevant laws and regulations that have a significant impact on issuer.	• Talents recruitment • Caring for our staff • Developing talents	P.59 P.62 P.63
Key Performance Index B1.1	Total workforce by employment type, age group and geographical region.	• Talents recruitment	P.59
Key Performance Index B1.2	Employee turnover ratio by age group and region.	• Talents recruitment	P.59
Level B2: Health and Safety			
General Disclosure	Regarding providing a safe working environment and protecting employees from occupational hazards: (a) Policies; and (b) Information on compliance with relevant laws and regulations that have a significant impact on the issuer. Policies; and	• Occupational health and safety • Disaster contingency plans	P.47 P.51
Key Performance Index B2.1	Numbers and percentages of deaths related to work.	During the Reporting Period, there were no deaths due to work.	N/A
Key Performance Index B2.2	Loss of working days due to work injuries.	During the Reporting Period, there were no injuries in work place	N/A

Main Areas, Levels, General Disclosure and Key Performance Index		Chapter /Statement	Page
Key Performance Index B2.3	Describe the occupational health and safety measures adopted, and the related implementation and monitoring methods.	• Occupational health and safety.	P.47
Level B3: Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills in performing job duties. Describe training activities.	• Occupational health and safety • Developing talents	P.47 P.63
Key Performance Index B3.1	Percentage of trained employees by gender and employee category (eg. senior management, middle management, etc.).	• Developing talents	P.63
Key Performance Index B3.2	The average number of hours each employee completed training by gender and employee category.	• Developing talents	P.63
Level B4: Labor Standard			
General Disclosure	For the prevention of child labor or forced labor: (a) Policies; and (b) Information on compliance with relevant laws and regulations that have a significant impact on the issuer. Policies; and	• Talents recruitment	P.59
Key Performance Index B4.1	Describe measures to review recruitment practices to avoid child labor and forced labor.	• Talents recruitment	P.59
Key Performance Index B4.2	Describe the steps taken to eliminate the situation when a violation is found	• Talents recruitment	P.59
Operating practices			
Level B5: Supply Chain Management			
General Disclosure	Management of supply chain environmental and social risk policies.	• Supply chain management	P.65
Key Performance Index B5.1	Number of suppliers by region.	All suppliers of the Group are located in China.	N/A
Key Performance Index B5.2	Describe the practice of hiring suppliers, implement the number of suppliers with relevant practices, and the methods of implementation and supervision of relevant practices.	Relevant data is not disclosed during the year.	N/A

Main Areas, Levels, General Disclosure and Key Performance Index		Chapter /Statement	Page
Level B6: Products Liability			
General Disclosure	Regarding health and safety, advertising, labeling and privacy issues and remedies for the products and services provided: (a) Policies; and (b) Information on compliance with relevant laws and regulations that have a significant impact on the issuer.	• Product health and safety • Sound customer service and protection of customers' privacy	P.42 P.66
Key Performance Index B6.1	Percentage of total products already been sold or delivered that needs to be recovered for safety and health reasons.	During the Reporting Period, no product was recovered due to safety and health reasons.	N/A
Key Performance Index B6.2	Number of complaints received about products and services and how to deal with them.	During the Reporting Period, no complaints were received regarding products and services.	N/A
Key Performance Index B6.3	Describe the practices related to the maintenance and protection of intellectual property.	• Development achievements	P.44
Key Performance Index B6.4	Describe the quality verification process and product recovery procedures.	• Quality control There was no product recycling due to safety and health reason during the Reporting Period.	P.43
Key Performance Index B6.5	Describe consumer data protection and privacy policies, and related enforcement and monitoring methods.	• Sound customer service and protection of customers' privacy	P.66

Main Areas, Levels, General Disclosure and Key Performance Index		Chapter /Statement	Page
Level B7:Anti-corruption			
General Disclosure	For the prevention of bribery, extortion, fraud and money laundering: (a) Policies; and (b) Information on compliance with relevant laws and regulations that have a significant impact on the issuer.	• Prohibiting corruption	P.66
Key Performance Index B7.1	The number of corruption lawsuits filed against the issuer or its employees during the Reporting Period and their verdicts.	During the Reporting Period, the Group did not find any serious violation of relevant laws and regulations that have a significant impact on the Group.	N/A
Key Performance Index B7.2	Describe preventive measures and whistle-blowing procedures, as well as related implementation and monitoring methods.	• Prohibiting corruption	P.66
Level B8: Investing in the Community			
General Disclosure	The policy on community involvement is to understand the needs of the communities in which they operate and to ensure that their business activities take into account the interests of the community.	• Giving back to the society	P.67
Key Performance Index B8.1	Focus on areas of contribution (such as education, environmental issues, labor needs, health, culture, sports).	Relevant data is not disclosed during the year.	N/A
Key Performance Index B8.2	Use resources (such as money or time) in focused areas.	Relevant data is not disclosed during the year.	N/A

PRINCIPAL ACTIVITIES

The principal activities of the Company are sale of less-shaved Processed Wood Panels and rendering of Wood Processing Procedure Service. The principal activities and other particulars of the subsidiaries of the Company are set out in note 14 to the financial statements.

BUSINESS MODEL AND STRATEGY

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

The Group operates two production plants in the PRC, situated at Wei County, Handan City, Hebei Province and Huai'an City, Jiangsu Province for the rendering of Wood Processing Procedure Service. The Group's less-shaved Processed Wood Panels are predominantly sold through our own sales and marketing department.

Details of the Group's business performance and financial review for the year ended 31 December 2019 are set out in the MD&A section of this annual report.

The Group seeks to promote the market recognition of its less-shaved Processed Wood Panels and rendering of Wood Processing Procedure Service in the PRC by achieving the following business objectives, including: (i) expansion of the Group's production capacity; (ii) expansion of the application spectrum and improvement of the quality of the Group's impregnation fluid; and (iii) expansion of the Group's sales network.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2019 is set out in the section of Financial Highlights, Chairlady's Statement, MD&A, Environmental, Social and Governance Report and the paragraphs below.

Compliance with laws and regulations

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

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

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

Environmental policies and performance

Emissions

The Group recognises the importance of environmental protection and has adopted stringent measures for environmental protection in order to ensure our compliance of the prevailing environmental protection laws and regulations. The formaldehyde emission of the Group's Processed Wood Products is less than 0.04mg/m^3 which satisfies and is far beyond the standards under the GB/T18102-2007 Standard and LY/T1700-2018 Standard (being PRC national standards and industry standards limiting harmful substances in laminate floorings and wood based flooring for ground with heating system, respectively). The Group's products also passed a test for two hundred and five (205) substances on the Candidate List of Substances of Very High Concern ("SVHC") for authorisation and comply with the European REACH (Regulation (EC) No.1907/2006 of the European Parliament and of the Council of the European Union concerning, among others, registration, evaluation, authorisation and restriction of chemicals) requirements on the use of chemical substances and their potential impacts on both human health and the environment. In April 2014, the Group's products passed the requirements promulgated by European Chemicals Agency ("ECHA") as well as the tests for 19 heavy metal elements, which further proved that the Group's products are green, eco-friendly and pollution-free.

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

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

The principal waste produced and emitted by the Group during its production process is waste water. The Group has installed waste water treatment facilities to recycle those polluted water for its production use.

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

Use of resources

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

Principal Risks and Uncertainties Facing the Company

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

Impact of Local and International Regulations

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

Third-Party Risks

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

Key Relationships with Employees, Customers and Suppliers

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

Our major suppliers are generally providing materials for production of the Group and had business relationship with the Group for over 3 years on average. For the details of trade payables, please refer to note 20 to the consolidated financial statements.

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

During the year ended 31 December 2019, the Group did not have any significant disputes with our major suppliers.

Our major customers are 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 credit term granted to the major customers is 30 days. Details of the trade receivables of the Group as at 31 December 2019 are set out in note 16 to the consolidated financial statements. Up to the date of this report, 11.8% of the trade receivables from the major customers has been settled.

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

The performance of product quality is closely related to the development of the Group. In order to alleviate quality risks for products, the Group adheres to the strict quality standards and comply with laws and regulations related to our operations. We have also obtained the international quality management system standard ISO 9001 for standardizing the production process.

During the Reporting Period, the Group did not have any material disputes with its major customers.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss on page 94 of this annual report.

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.

None of the shareholders entered into any arrangement to waive or agree to waive any dividend.

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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for approximately 87.4% of the total sales for the year. The top five suppliers accounted for approximately 98.5% of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 61.0% of the total sales and the Group's largest supplier accounted for approximately 87.2% of the total purchases for the year.

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

FINANCIAL STATEMENTS

The financial performance of the Group for the year ended 31 December 2019 and the financial position of the Company and the Group as at 31 December 2019 are set out in the financial statements on pages 94 to 172.

RESERVES

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

DISTRIBUTABLE RESERVE

The Company's reserves available for distribution represent the share premium, and retained profits, if any, which in aggregate amounted to approximately RMB140.9 million as at 31 December 2019.

PROPERTY, PLANT AND EQUIPMENT

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

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 13 to the financial statements.

DONATIONS

During the year, the Group did not make charitable and other donations (2018: Nil).

SHARE CAPITAL

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

DIRECTORS

The Directors during the year ended 31 December 2019 and up to the date of this report were:

Executive Directors

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

Independent non-executive Directors

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

Biographical information of Directors of the Group are set out from pages 20 to 21 of this annual report.

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

DIRECTORS' SERVICE CONTRACTS

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

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

PERMITTED INDEMNITY PROVISION

Under the articles of association of the Company, the Company had a permitted indemnity provision (as defined in section 469 of the Companies Ordinance) in force for the benefit of the Directors throughout the year under review and as at the date of approval of this Directors' Report, pursuant to which the Company shall indemnify any Director against any liability, loss suffered and expenses incurred by the Director in connection with any legal proceedings in which he/she is involved by reason of being a Director, except in any case where the matter in respect of which indemnification is sought was caused by the fraud or dishonesty of the Directors. The Company has maintained insurance cover for Directors' and officers' liabilities in respect of legal actions against the Directors arising out of corporate activities. The insurance coverage is reviewed on an annual basis. During the year ended 31 December 2019, no claims were made against the Directors.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

CONFIRMATION OF INDEPENDENCE

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

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

As at 31 December 2019, 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 SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as follows:

(i) The Company

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

(ii) Associated corporation of the Company

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

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

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

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

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

As at 31 December 2019, 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 *(Note)*	Beneficial Owner	673,250,000	67.3%

Note: The entire issued share capital of Brilliant Plan 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 31 December 2019, other than the Directors and chief executives of the Company whose interests are set out in the paragraph "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company its Associated Corporation" above, the Company had not been notified by any persons who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

EQUITY-LINKED AGREEMENT

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

Share Option Scheme

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a resolution of the shareholders passed on 20 December 2013 and became unconditional upon the Listing of the Company's shares on the Stock Exchange. The principal terms of which are set out in the paragraph headed "Share Option Scheme" under the section headed "Statutory and General Information" of the prospectus of the Company dated 30 December 2013 ("Prospectus").

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

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

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

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

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

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

(iii) the nominal value of the Share.

The Share Option Scheme will remain in force for a period of 10 years and the remaining life of the Share Option Scheme is 4 years.

There is no option outstanding, granted, exercised, cancelled and lapsed during the year ended 31 December 2019.

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

Share Award Plan

The Board adopted the Share Award Plan on 29 March 2019 (the "Share Award Plan Adoption Date"). The purposes of the Share Award Plan are to recognise and reward the contribution of the eligible participants to the growth and development of the Group, to give incentives to the 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.

Subject to any earlier termination as may be determined by the Board, the Share Award Plan will remain in force for a period of 10 years from the Share Award Plan Adoption Date.

The Share Award Plan shall be subject to the administration of the Board (by itself or through the plan administrator) and the trustee in accordance with the terms of the Share Award Plan and the terms of the trust deed. The trustee shall hold the trust fund in accordance with the terms of the trust deed.

In any given financial year of the Company, the maximum number of Shares to be subscribed for and/or purchased by the trustee by utilising the funds to be allocated by the Board out of the Company's resources for the purpose of the Share Award Plan shall not exceed 10% of the total number of issued Shares as at the beginning of such financial year. None of the Board or the plan administrator shall instruct the trustee to subscribe for and/or purchase any Shares for the purpose of the Share Award Plan when such purchase and/or subscription will result in such threshold being exceeded.

Details of the Share Award Plan were disclosed in the Company's announcements dated 29 March 2019.

During the year ended 31 December 2019, 49,100,000 ordinary shares of the Company were purchased on the Stock Exchange pursuant to the terms of the trust deed of the Share Award Plan at a total consideration of approximately HKD97,106,000 (equivalent to approximately RMB85,653,000). No share awards have been outstanding, awarded, vested, lapsed or cancelled under the Share Award Plan during the year ended 31 December 2019.

RELATED PARTY TRANSACTIONS

Details of material related party transactions entered into by the Group during the year are set out in note 28 to the financial statements. For the year ended 31 December 2019, such transactions did not fall within the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2019, none of the Directors or their respective close associates had any business or interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

In order to protect the Group's interest in its business activities, on 20 December 2013, each of Brilliant Plan and Ms. Yim Tsun ("Ms. Yim"), the controlling shareholders of the Company (the "Controlling Shareholders"), have entered into a non-competition deed with the Company (for itself and on behalf of its subsidiaries), pursuant to which each of them shall not, and shall procure that none of its/her close associates shall, directly or indirectly, establish, invest, involve in, manage, operate or otherwise hold any right or interest, directly or indirectly, in the business of processing, manufacturing and sales of Processed Wood Products, and such other business conducted or carried on by the Group from time to time within the PRC (inclusive of Hong Kong) and such other places as the Group may conduct or carry on business from time to time. The Company has received a confirmation from the Controlling Shareholders on their compliance with the non-competition deed for the year ended 31 December 2019.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed in this report, no contract of significance has been entered into between the Company or any of its subsidiaries and the Controlling Shareholders or any of their subsidiaries, at any time during the year ended 31 December 2019.

BANK LOANS

Particulars of bank loans of the Group as at 31 December 2019 are set out in note 23 to the financial statements.

CONTRIBUTIONS TO THE RETIREMENT BENEFITS SCHEMES

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

PRE-EMPTIVE RIGHTS

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

TAX RELIEF

The Company is not aware of any tax relief or exemption available to the shareholders of the Company by reason of their holding of the shares of the Company during the year ended 31 December 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

FINANCIAL HIGHLIGHTS

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

ANNUAL GENERAL MEETING

The Annual General Meeting for the year ended 31 December 2019 is scheduled to be held on Wednesday, 20 May 2020. A notice convening the Annual General Meeting will be issued and despatched to shareholders on 17 April 2020.

AUDITORS

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

EVENT AFTER THE REPORTING PERIOD

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

By order of the Board
Yim Tsun
Chairlady

30 March 2020

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

OPINION

We have audited the consolidated financial statements of China Wood Optimization (Holding) Limited (the "Company") and its subsidiaries (the "Group") set out on pages 94 to 172, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (continued)

Revenue recognition

Refer to Note 4 to the consolidated financial statements and the accounting policies on page 123 in Note 2 (s).

The Key Audit Matter	How the matter was addressed in our audit
Revenue of the Group for the year ended 31 December 2019 principally comprised the sales of wood products to wood panel distributors and furniture manufacturers, and the rendering of wood processing services to wood panel distributors and furniture manufacturers. Management evaluates the terms of each contract in order to determine the Group's performance obligations and appropriate timing for revenue recognition. Revenue from sales of wood products is generally recognised when the self-produced wood products are despatched to and accepted by customers. Revenue from rendering of wood processing services is generally recognised when the processed wood products are despatched to and accepted by customers upon signing the documents indicating the weight of impregnation fluid consumed. We identified revenue recognition as a key audit matter because revenue is a key performance indicator for the Group and the key driver of gross profit which increases the risk that revenue may be manipulated to meet targets or expectations and because there is a risk that particular terms of sale may not be met and, as a result, revenue may be recognised in the incorrect period.	Our audit procedures to assess the recognition of revenue included the following: • assessing the design, implementation and operating effectiveness of key internal controls relating to the recognition of revenue from the sale of wood products and the rendering of wood processing services, respectively; • inspecting sales contracts with customers, on a sample basis, to assess whether the Group has appropriately identified performance obligations and determined and allocated the transaction price correctly; • comparing sales transactions, on a sample basis, with the underlying delivery notes for goods self-produced and processed for customers, monthly confirmations of the transaction amounts and quantity of wood products sold or the weight of impregnation fluid consumed during wood processing and cash receipts and obtaining audit confirmations of the transaction amounts and quantity of wood products sold or the weight of impregnation fluid consumed during wood processing, on a sample basis, to assess whether the related revenue was recognised in accordance with the Group's revenue recognition accounting policies;

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

KEY AUDIT MATTERS (continued)

Revenue recognition

Refer to Note 4 to the consolidated financial statements and the accounting policies on page 123 in Note 2 (s).

The Key Audit Matter	How the matter was addressed in our audit
	• performing site visits and interviewing management of significant customers to gain understanding of the operations of these customers and assessing whether the revenue recorded by the Group during the current year in respect of these customers was consistent with the perceived size and nature of the customers' operations; • comparing sales transactions just before and after the financial year end, on a sample basis, with the terms as set out in the underlying sales contracts and the underlying goods delivery notes for goods self-produced, the signed documents indicating the weight of impregnation fluid consumed during wood processing and monthly confirmations of the transaction amounts and quantity of wood products sold or the weight of impregnation fluid consumed during wood processing to assess if the related revenue was recognised in the appropriate accounting period; • scrutinising the sales ledger after the year end to identify significant credit notes issued and sales returns and inspecting relevant underlying documentation to assess if the related adjustments to revenue had been accounted for in the appropriate accounting period in accordance with the requirements of the prevailing accounting standards; and • inspecting significant manual adjustments to revenue raised during the reporting period, if any, enquiring of management the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation.

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

KEY AUDIT MATTERS (continued)

Assessing potential impairment of non-current assets held by certain subsidiary of the Group

See Notes 11, 12 and 13 to the consolidated financial statements and the accounting policies on page 117 in Note 2 (i)(iii).

The Key Audit Matter	How the matter was addressed in our audit
In 2017, the Group temporarily ceased the operation of the coal-fired boilers of a subsidiary of the Group located in Handan, Hebei Province, in compliance with the requirement of work plan for air pollution control in Beijing, Tianjin and Hebei Province and its surrounding areas in 2017 (the "Air Pollution Control Work Plan"). During the year ended 31 December 2019, the subsidiary had upgraded its production facilities and had enhanced its production process to comply with the Air Pollution Control Work Plan and began its trial operation. The directors identified indicators of potential impairment of non-current assets held by the subsidiary and performed impairment assessments to these assets as at 31 December 2019 based on the valuation report issued by an independent external valuer engaged by the Group, using value-in-use model. The impairment assessment involves a significant degree of management judgement, particularly in relation to the key assumptions adopted, including the contract prices and the discount rate applied in the discounted cash flow forecast.	Our audit procedures to assess potential impairment of non-current assets included the following: • assessing the Group's impairment assessment model, which included assessing the impairment indicators identified by the management, the identification of the cash generating unit ("CGUs") and the allocation of assets to those CGUs; • performing a retrospective review of management judgements and assumptions applied in the prior year to assess the reliability of the judgements and assumptions, which included comparing the forecast revenue, profit and usage status of the non-current assets held by the subsidiary with the current year's actual results; • assessing the external valuer's qualifications, experience and expertise and considering their objectivity and independence; • obtaining the valuation report prepared by the external valuer engaged by the Group on which the impairment of certain non-current assets are based;

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

KEY AUDIT MATTERS (continued)

Assessing potential impairment of non-current assets held by certain subsidiary of the Group

See Notes 11, 12 and 13 to the consolidated financial statements and the accounting policies on page 117 in Note 2 (i)(iii).

The Key Audit Matter	How the matter was addressed in our audit
We identified assessing potential impairment of non-current assets as a key audit matter because the impairment assessments include a number of assumptions and estimates which require the exercise of significant management judgement and are inherently uncertain and could be subject to potential management bias.	• evaluating the valuation methodology adopted by the external valuer with reference to the requirements of the prevailing accounting standards, with assistance of our internal valuation specialists; • involving our internal valuation specialists in assessing the key assumptions adopted in the calculation of value in use, by assessing whether the key assumptions were within the range adopted by other companies in the same industry or comparing with market and other external available information; • involving our internal valuation specialists to assist us in evaluating the discount rate applied in the discounted cash flow forecasts by assessing whether the discount rate applied in the discounted cash flow forecasts were within the range of those adopted by other companies in the same industry and with similar risk profile; and • considering the disclosures in the consolidated financial statements in respect of the impairment assessment with reference to the requirements of the prevailing accounting standards.

Information other than the consolidated financial statements and auditor's report thereon

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

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

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

Information other than the consolidated financial statements and auditor's report thereon (continued)

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lau Kin Chun.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 March 2020

Consolidated statement of profit or loss

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

	Note	2019 RMB'000	2018 RMB'000 (Note)
Revenue	4	**211,655**	247,592
Cost of sales		**(73,298)**	(109,507)
Gross profit	4(b)	**138,357**	138,085
Other income	5	**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	6(a)	**(3,317)**	(2,887)
Profit before taxation	6	**88,658**	86,255
Income tax	7	**(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)	10	**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).

The notes on pages 101 to 172 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 27(b).

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).

The notes on pages 101 to 172 form part of these financial statements.

Consolidated statement of financial position

At 31 December 2019
(Expressed in RMB)

	Note	2019 RMB'000	2018 RMB'000 (Note)
Non-current assets			
Property, plant and equipment	11	**162,460**	209,874
Right-of-use assets	12	**53,319**	—
Investment properties	13	**72,523**	50,892
Lease prepayments		**—**	52,616
Deferred tax assets	26(b)	**8,969**	7,395
		297,271	320,777
Current assets			
Inventories	15	**41,011**	69,114
Trade receivables	16	**127,226**	58,984
Prepayments, deposits and other receivables	17	**86,588**	116,491
Prepaid income tax	26(a)	**2,302**	2,302
Time and restricted deposits	18	**1,516**	117,152
Cash and cash equivalents	19	**203,595**	90,117
		462,238	454,160
Current liabilities			
Trade payables	20	**1,826**	—
Receipts in advance	21	**1,214**	1,315
Accrued expenses and other payables	22	**14,540**	17,941
Bank loans	23(a)	**50,000**	30,000
Lease liabilities	24	**831**	—
Income tax payable	26(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

The notes on pages 101 to 172 form part of these financial statements.

At 31 December 2019
(Expressed in RMB)

	Note	**2019**	2018
		RMB'000	RMB'000
			(Note)
Non-current liabilities			
Lease Liabilities	24	**1,042**	—
Deferred income	25	**25,479**	28,007
Deferred tax liabilities	26(b)	**3,800**	3,800
		30,321	31,807
NET ASSETS		**657,386**	689,794
CAPITAL AND RESERVES	27		
Share capital		**7,921**	7,921
Reserves		**649,465**	681,873
TOTAL EQUITY		**657,386**	689,794

Approved and authorised for issue by the board of directors on 30 March 2020.

Yim Tsun
Director

Li Li
Director

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).

The notes on pages 101 to 172 form part of these financial statements.

Consolidated statement of changes in equity

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

	Attributable to equity shareholders of the Company							
	Share capital RMB'000 (Note 27(c))	Share premium RMB'000 (Note 27(d)(i))	Shares held under share award plan RMB'000 (Note 27(d)(ii))	Other reserve RMB'000 (Note 27(d)(iii))	Statutory reserves RMB'000 (Note 27(d)(iv))	Exchange reserve RMB'000 (Note 27(d)(v))	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2018	7,921	242,361	—	30	42,594	4,441	338,692	636,039
Changes in equity for 2018:								
Profit for the year	—	—	—	—	—	—	69,647	69,647
Other comprehensive income	—	—	—	—	—	970	—	970
Total comprehensive income	—	—	—	—	—	970	69,647	70,617
Dividend approved and paid in respect of the previous year	—	(16,862)	—	—	—	—	—	(16,862)
Appropriation to reserves	—	—	—	—	8,438	—	(8,438)	—
Balance at 31 December 2018	7,921	225,499	—	30	51,032	5,411	399,901	689,794
Balance at 1 January 2019	7,921	225,499	—	30	51,032	5,411	399,901	689,794
Changes in equity for 2019:								
Profit for the year	—	—	—	—	—	—	70,091	70,091
Other comprehensive income	—	—	—	—	—	437	—	437
Total comprehensive income	—	—	—	—	—	437	70,091	70,528
Shares purchased under the share award plan (Note 27(c(ii)))	—	—	(85,653)	—	—	—	—	(85,653)
Dividend approved and paid in respect of the previous year (Note 27(b(ii)))	—	—	—	—	—	—	(17,283)	(17,283)
Appropriation to reserves	—	—	—	—	8,728	—	(8,728)	—
Balance at 31 December 2019	7,921	225,499	(85,653)	30	59,760	5,848	443,981	657,386

The notes on pages 101 to 172 form part of these financial statements.

Consolidated cash flow statement

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

	Note	2019 RMB'000	2018 RMB'000 (Note)
Operating activities			
Profit before taxation		**88,658**	86,255
Adjustments for:			
Depreciation and amortisation	6(c)	**28,651**	29,305
Net loss on disposal of property, plant and equipment	5	**2,242**	—
Impairment loss on trade receivables	29(a)	**4,030**	12
Interest income	5	**(9,627)**	(4,822)
Finance costs	6(a)	**3,317**	2,887
Government grants		**(2,528)**	(2,528)
Changes in working capital:			
Decrease in inventories		**28,103**	63,776
Increase in trade receivables		**(72,272)**	(42,732)
(Increase)/decrease in prepayments, deposits and other receivables		**(1,766)**	4,381
Increase/(decrease) in trade payables		**1,826**	(761)
(Decrease)/increase in receipts in advance		**(101)**	1,211
(Decrease)/increase in accrued expenses and other payables		**(2,921)**	1,105
Cash generated from operations		**67,612**	138,089
Income tax paid	26(a)	**(20,830)**	(7,131)
Net cash generated from operating activities		**46,782**	130,958
Investing activities			
Payments for acquisitions of property, plant and equipment		**(9,687)**	(8,033)
Proceeds from disposals of property, plant and equipment		**6,001**	1,261
Increase in time deposits		**(35,404)**	(115,652)
Decrease in time deposits		**151,056**	96,460
Interest received		**11,296**	3,133
Decrease/(increase) in loans to third parties		**30,000**	(80,000)
Net cash generated from/(used in) investing activities		**153,262**	(102,831)

The notes on pages 101 to 172 form part of these financial statements.

Consolidated cash flow statement (Continued)

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

	Note	2019 RMB'000	2018 RMB'000 (Note)
Financing activities			
Proceeds from new bank loans	19(b)	**50,000**	30,000
Repayment of bank loans	19(b)	**(30,000)**	(74,828)
Capital element of lease rentals paid	19(b)	**(488)**	(5,487)
Interest element of lease rentals paid	19(b)	**(71)**	(503)
Dividends paid	27(b)(ii)	**(17,283)**	(16,862)
Payments for purchase of shares under share award plan	27(c)(ii)	**(85,653)**	—
Other finance costs paid	19(b)	**(2,584)**	(2,444)
Net cash used in financing activities		**(86,079)**	(70,124)
Net increase/(decrease) in cash and cash equivalents		**113,965**	(41,997)
Cash and cash equivalents at 1 January	19	**90,117**	131,852
Effect of foreign exchange rate changes		**(487)**	262
Cash and cash equivalents at 31 December	19	**203,595**	90,117

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).

The notes on pages 101 to 172 form part of these financial statements.

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 consolidated financial statements of the Company as at and for the year ended 31 December 2019 comprise the Group. 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"). Significant accounting policies adopted by the Group are disclosed below.

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 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.

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16, *Leases* (Continued)

(i) New definition of a lease (Continued)

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 as disclosed in Note 30. For an explanation of how the Group applies lessee accounting, see Note 2(h)(i).

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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16, *Leases* (Continued)

(ii) Lessee accounting and transitional impact (Continued)

The following table reconciles the operating lease commitments as disclosed in Note 30 of the consolidated financial statements 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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16, *Leases* (Continued)

(ii) Lessee accounting and transitional impact (Continued)

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 (see Note 19(b)). 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 19(c)).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16, *Leases* (Continued)

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16, *Leases* (Continued)

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

	2019			2018
	Amounts reported under IFRS 16 (A)	Estimated amounts related to operating leases as if under IAS 17 (Note (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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

IFRS 16, *Leases* (Continued)

(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.

(d) Subsidiaries

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

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(i)(iii)).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment

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

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

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

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

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

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

(f) Investment properties

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

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

In the comparative period, when the Group held a property interest under an operating lease and used the property to earn rental income, the Group could elect on a property-by-property basis to classify and account for such interest as an investment property. Any such property interest which had been classified as an investment property was accounted for as if it were held under a finance lease (see Note 2(h)), and the same accounting policies were applied to that interest as were applied to other investment properties leased under finance leases. Lease payments were accounted for as described in Note 2(h).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Intangible asset

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

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

Amortisation of intangible asset with finite useful life is charged to profit or loss on a straight-line basis over the asset's estimated useful life.

(h) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. 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.

(i) As a lessee

(A) Policy applicable from 1 January 2019

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset. the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leased assets (Continued)

(i) As a lessee (Continued)

(A) Policy applicable from 1 January 2019 (Continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use assets are subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(i)(iii)). Right-of-use assets are depreciated using the straight-line method for the commencement lease date to the earlier of the end of the useful life of the right-of-use assets or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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.

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases, except for the property held under operating leases that would otherwise meet the definition of an investment property was classified as investment property on a property-by-property basis and, if classified as investment property, was accounted for as if held under a finance lease (see Note 2(f)), and land held for own use under an operating lease, the fair value of which could not be measured separately from the fair value of a building situated thereon at the inception of the lease, was accounted for as being held under a finance lease, unless the building was also clearly held under an operating lease. For these purposes, the inception of the lease was the time that the lease was first entered into by the Group, or taken over from the previous lessee.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leased assets (Continued)

(i) As a lessee (Continued)

(B) Policy applicable prior to 1 January 2019 (Continued)

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

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

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

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with Note 2(s)(iii).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for ECLs on the financial assets measured at amortised cost (including cash and cash equivalents, trade receivables, deposits and other receivables and contract assets (see Note 2(k)).

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 for trade receivables, deposits and other receivables and contract assets are discounted using the effective interest rate determined at initial recognition or an approximation 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.

Loss allowances for trade receivables and contract assets 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 all other financial instruments, 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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

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 reassessment, 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 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 market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(s)(iv) 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 past due event;

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

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

Write-off policy

The gross carrying amount of a financial 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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets (Continued)

(ii) Credit losses from financial guarantees issued

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, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

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 (see Note 2(s)(vi)).

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs 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 2(i)(i) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets (Continued)

(iii) Impairment of other non-current assets

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

— property, plant and equipment;

— right-of-use assets;

— investment properties; and

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

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

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets (Continued)

(iii) Impairment of other non-current assets (Continued)

— Reversals of impairment losses

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

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

(iv) Interim financial reporting and impairment

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

(j) Inventories and other contract costs

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

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

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

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

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Inventories and other contract costs (Continued)

(ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventories (see Note 2(j)(i)).

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalised as inventories, are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in Note 2(s).

(k) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(s)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in Note 2(i)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(l)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2(s)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such case, a corresponding receivable would also be recognised (see Note 2(l)).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Contract assets and contract liabilities (Continued)

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

(l) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2(k)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(i)(i)).

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in Note 2(i)(i).

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with Note 2(i)(ii), trade and other payables are subsequently stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(u)).

(p) Employee benefits

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Employee benefits (Continued)

(ii) Termination benefits

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

(q) Income tax

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Income tax (Continued)

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

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

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

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

  — the same taxable entity; or

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

(r) Provisions and contingent liabilities

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

(ii) Rendering of service

Revenue is recognised when the services are rendered. Revenue from the rendering of Wood Processing Procedure Service is generally recognised when the processed wood products are despatched to and accepted by the customers.

(iii) Rental income from operating leases

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

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(i)(i)).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Revenue and other income (Continued)

(v) Government grants

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

(vi) Income from financial guarantees issued

Income from financial guarantees issued is recognised over the term of the guarantees (see Note 2(i)(ii)).

(t) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities.

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

(u) Borrowing costs

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Segment reporting

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

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

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

(a) Expected credit losses for trade receivables

The Group estimates loss allowance at an amount equal to lifetime ECLs, which 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. If the financial conditions of the customers and debtors were to deteriorate, and these customers and debtors do not have assets or sources of income that could generate sufficient cash flows to repay the amounts, actual write-offs would be higher than estimated.

(b) Impairment losses for non-current assets

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(c) Recognition of deferred tax assets

Deferred tax assets in respect of deductible temporary differences are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the future operating performance of the Group and requires a significant level of judgement exercised by the management. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised in future years.

(d) Depreciation

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

4 REVENUE AND SEGMENT REPORTING

(a) Disaggregation of revenue

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

	2019 **RMB'000**	2018 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 4(b)(i) and 4(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). Details of concentrations of credit risk arising from this customer are set out in Note 29(a).

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 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.

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Segment results, assets and liabilities (Continued)

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

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(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.

5 OTHER INCOME

	2019 **RMB'000**	2018 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

6 PROFIT BEFORE TAXATION

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

(a) Finance costs:

	2019 **RMB'000**	2018 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).

6 PROFIT BEFORE TAXATION (Continued)

(b) Staff costs#:

	2019 RMB'000	2018 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.

6 PROFIT BEFORE TAXATION (Continued)

(c) Other items:

	2019 **RMB'000**	2018 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 6(b))	**12,009**	11,494
Cost of inventories# (Note 15(b))	**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 6(b) for each of these types of expenses.

7 INCOME TAX

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

	2019 RMB'000	2018 RMB'000
Current taxation (Note 26(a)):		
— Provision for the year	**20,141**	14,981
Deferred taxation (Note 26(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 RMB'000	2018 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

7 INCOME TAX (Continued)

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

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 RMB 3,800,000 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 RMB 245,937,000 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.

8 DIRECTORS' EMOLUMENTS

Details of directors' emoluments are set out below:

	2019				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Ms Yim Tsun	**744**	**—**	**—**	**—**	**744**
Mr Li Li	**744**	**—**	**—**	**—**	**744**
Independent non-executive directors					
Mr Zhang Dali	**133**	**—**	**—**	**—**	**133**
Mr Pu Junwen	**133**	**—**	**—**	**—**	**133**
Mr Lau Ying Kit	**133**	**—**	**—**	**—**	**133**
	1,887	**—**	**—**	**—**	**1,887**

	2018				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Ms Yim Tsun	711	—	—	—	711
Mr Li Li	711	—	—	—	711
Independent non-executive directors					
Mr Zhang Dali	127	—	—	—	127
Mr Pu Junwen	127	—	—	—	127
Mr Lau Ying Kit	127	—	—	—	127
	1,803	—	—	—	1,803

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

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2018: two) are directors whom the emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the remaining three individuals (2018: three) who are not directors are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, allowances and benefits in kind	**1,258**	1,131
Discretionary bonuses	**100**	110
Retirement scheme contributions	**82**	88
	1,440	1,329

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

	2019 Number of individuals	2018 Number of individuals
HK$Nil — HK$1,000,000	**3**	3

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

10 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share for the year ended 31 December 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 **'000**	2018 '000
Issued ordinary shares at 1 January	**1,000,000**	1,000,000
Effect of shares purchased under the share award plan (Note 27(c)(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.

11 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:					
At 1 January 2018	173,503	154,613	11,518	366	340,000
Additions	777	811	2,085	1,151	4,824
Transfer in/(out)	—	255	—	(255)	—
Disposals	—	(2,638)	—	—	(2,638)
At 31 December 2018	174,280	153,041	13,603	1,262	342,186
Accumulated depreciation and impairment losses:					
At 1 January 2018	(32,573)	(69,842)	(6,232)	—	(108,647)
Charge for the year	(8,001)	(14,635)	(2,406)	—	(25,042)
Written back on disposals	—	1,377	—	—	1,377
At 31 December 2018	(40,574)	(83,100)	(8,638)	—	(132,312)
Net book value:					
At 31 December 2018	133,706	69,941	4,965	1,262	209,874
Cost:					
At 1 January 2019	174,280	153,041	13,603	1,262	342,186
Additions	851	1,059	2,267	5,276	9,453
Transfer in/(out)	—	4,606	179	(4,785)	—
Reclassification to investment properties(Note 13)	(38,314)	—	—	—	(38,314)
Disposals	(2,025)	(29,006)	(49)	—	(31,080)
At 31 December 2019	134,792	129,700	16,000	1,753	282,245
Accumulated depreciation and impairment losses:					
At 1 January 2019	(40,574)	(83,100)	(8,638)	—	(132,312)
Charge for the year	(7,631)	(13,514)	(2,377)	—	(23,522)
Reclassification to investment properties(Note 13)	13,212	—	—	—	13,212
Written back on disposals	679	22,119	39	—	22,837
At 31 December 2019	(34,314)	(74,495)	(10,976)	—	(119,785)
Net book value:					
At 31 December 2019	100,478	55,205	5,024	1,753	162,460

11 PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Impairment loss

In 2017, the Group temporarily ceased the operation of the coal-fired boilers of Hebei AMS in compliance with the requirement of work plan for air pollution control in Beijing, Tianjin and Hebei Province and its surrounding areas in 2017 (the "Air Pollution Control Work Plan"). During the year ended 31 December 2019, Hebei AMS and the local government reached an agreement that Hebei AMS would dismantle the coal-fired boilers and construct a new natural gas boiler as replacement and the local government would compensate the relevant loss of Hebei AMS. As at 31 December 2019, Hebei AMS had upgraded its production facilities and had enhanced its production process to comply with the Air Pollution Control Work Plan and began its trial operation. The Group assessed the recoverable amount of the related property, plant and equipment of Hebei AMS as at 31 December 2019 based on the valuation report issued by an independent qualified valuer engaged by the Group. No impairment loss was recognised in 2019 (2018: RMBNil). The estimates of recoverable amount were based on the value in use of the related property, plant and equipment.

11 PROPERTY, PLANT AND EQUIPMENT (Continued)

(c) Machinery leased out under operating leases

	RMB'000
Cost:	
At 1 January 2018 and 31 December 2018	60,165
Accumulated depreciation and impairment losses:	
At 1 January 2018	(22,265)
Charge for the year	(5,716)
At 31 December 2018	(27,981)
Net book value:	
At 31 December 2018	32,184
Cost:	
At 1 January 2019	60,165
Additions	32,359
At 31 December 2019	92,524
Accumulated depreciation and impairment losses:	
At 1 January 2019	(27,981)
Charge for the year	(6,739)
Additions	(20,180)
At 31 December 2019	(54,900)
Net book value:	
At 31 December 2019	37,624

The Group leases out a number of items of machinery under operating leases. The leases typically run for one year, with an option to renew the lease after that date at which time all terms are renegotiated. Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods are RMB6,754,000 in the next year (2018: RMB9,200,000 in the next two years).

12 RIGHT-OF-USE ASSETS

	Lease prepayments RMB'000	Other properties leased for own use RMB'000	Total RMB'000
Cost:			
At 31 December 2018	—	—	—
Impact on initial application of IFRS 16 *(Notes (i) and (ii))*	57,402	—	57,402
At 1 January 2019	57,402	—	57,402
Additions	—	2,277	2,277
Exchange adjustment	—	90	90
At 31 December 2019	57,402	2,367	59,769
Accumulated depreciation and impairment losses:			
At 31 December 2018	—	—	—
Impact on initial application of IFRS 16 *(Notes (i) and (ii))*	(4,786)	—	(4,786)
At 1 January 2019	(4,786)	—	(4,786)
Charge for the year	(1,138)	(520)	(1,658)
Exchange adjustment	—	(6)	(6)
At 31 December 2019	(5,924)	(526)	(6,450)
Net book value:			
At 31 December 2019	51,478	1,841	53,319

Notes:

(i) As discussed in Note 2, the Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets which were previously classified as lease prepayments. Lease prepayments represent land use right premiums paid by the Group for land situated in the PRC, with a lease period of 50 years.

(ii) During the year ended 31 December 2019, the Group leased an office premise located in Hong Kong which runs for an initial period of 3 years. As a result, the Group recognised the right-of-use assets and lease liabilities at the present value of future rental payments amounting to RMB2,277,000.

(Expressed in RMB unless otherwise indicated)

12 RIGHT-OF-USE ASSETS (Continued)

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019	2018 (Note)
	RMB'000	RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Lease prepayments	**1,138**	—
Other properties leased for own use	**520**	—
	1,658	—
Interest on lease liabilities (Note 6(a))	**71**	—
Expense relating to short-term leases and other leases with remaining lease term ending on before 31 December 2019	**484**	889

Note: 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)).

13 INVESTMENT PROPERTIES

	2019 RMB'000	2018 RMB'000
Cost:		
At 1 January	**65,795**	65,795
Reclassification from property, plant and equipment (Note 11)	**38,314**	—
At 31 December	**104,109**	65,795
Accumulated amortisation:		
At 1 January	**(14,903)**	(11,777)
Reclassification from property, plant and equipment (Note 11)	**(13,212)**	—
Charge for the year	**(3,471)**	(3,126)
At 31 December	**(31,586)**	(14,903)
Net book value:		
At 31 December	**72,523**	50,892

Notes:

(i) The investment properties owned by the Group are situated in the PRC. According to the property valuation report issued by an independent qualified valuer, the fair value of the Group's investment properties at 31 December 2019 is RMB 111,240,000 (31 December 2018: RMB77,430,000).

(ii) Investment properties leased out under operating leases

The Group leases out investment properties under operating leases. The leases run for an initial period of one year, 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 receivables under non-cancellable operating leases are as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	**4,580**	6,188
After 1 year but within 5 years	**—**	1,815
	4,580	8,003

(Expressed in RMB unless otherwise indicated)

14 INTERESTS IN SUBSIDIARIES

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

Name of subsidiary	Place and date of establishment/ incorporation	Particulars of registered/issued and paid-up capital	Proportion of ownership interest: The Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Hebei AMS 河北愛美森木材加工有限公司*	The PRC 3 November 2009	RMB115,333,000	100%	—	100%	Production and Sale of Wood Panels/Rendering of Wood Processing Procedure Service
Celestial New Limited 愛美森木業(香港)有限公司**	The British Virgin Islands 10 April 2012	United States Dollar ("USD") 1	100%	100%	—	Investment holding
China Wood Optimization (HK) Limited 中國優化材(香港)有限公司**	Hong Kong 13 April 2012	1 share	100%	—	100%	Investment holding
Jiangsu AMS 江蘇愛美森木業有限公司*	The PRC 18 March 2015	Registered capital of RMB220,500,000 and paid-up capital of RMB156,000,000	100%	—	100%	Production and Sale of Wood Panels/Rendering of Wood Processing Procedure Service

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

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

15 INVENTORIES

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

	2019 RMB'000	2018 RMB'000
Raw materials	**2,075**	5,830
Finished goods	**38,936**	63,284
	41,011	69,114

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

	2019 RMB'000	2018 RMB'000
Carrying amount of inventories sold or consumed	**61,354**	100,421

16 TRADE RECEIVABLES

	2019 RMB'000	2018 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 RMB'000	2018 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

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in Note 29(a).

17 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 **RMB'000**	2018 RMB'000
Prepayments for purchase of inventories	**32,524**	28,424
Deposits for other loan and obligations under finance lease	**—**	2,213
Loans to third parties *(Notes (i) and (ii))*	**50,000**	80,000
Others	**4,064**	5,854
	86,588	116,491

Notes:

(i) As at 10 August 2018, Jiangsu AMS entered into a short-term loan agreement with a third party borrower pursuant to which Jiangsu AMS agreed to lend to the third party borrower a one year short-term loan in the principal amount of RMB50,000,000.

As at 16 August 2019, Jiangsu AMS entered into a supplemental loan agreement with this third party borrower pursuant to which Jiangsu AMS agreed to extend the expiry of this short-term loan of RMB50,000,000 from 17 August 2019 to 17 August 2020.

The interest rate of this loan is 10% per annum.

(ii) As at 10 December 2018, Hebei AMS entered into a short-term loan agreement with a third party borrower pursuant to which Hebei AMS agreed to lend to this third party borrower a one year short-term loan in the principal amount of RMB30,000,000. The interest rate of this loan is 9% per annum. The third party loan has been fully repaid by the borrower during the year ended 31 December 2019.

(iii) All of the short-term prepayments, deposits and other receivables at 31 December 2019 and 2018 are expected to be recovered or recognised as expenses within one year.

18 TIME AND RESTRICTED DEPOSITS

	2019 RMB'000	2018 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.

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2019 RMB'000	2018 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.

(Expressed in RMB unless otherwise indicated)

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(b) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank loans RMB'000 (Note 23)	Payables for interest expenses RMB'000 (Note 22)	Lease liabilities RMB'000 (Note 24)	Total RMB'000
At 1 January 2019	30,000	3	—	30,003
Changes from financing cash flows:				
Proceeds from new bank loans	50,000	—	—	50,000
Repayment of bank loans	(30,000)	—	—	(30,000)
Capital element of lease rentals paid	—	—	(488)	(488)
Interest element of lease rentals paid	—	—	(71)	(71)
Other finance costs paid	—	(2,584)	—	(2,584)
Total changes from financing cash flows	20,000	(2,584)	(559)	16,857
Exchange adjustment	**—**	**—**	**(6)**	**(6)**
Other changes:				
Increase in lease liabilities from entering into new leases during the year	—	—	2,367	2,367
Interest expenses (Note 6(a))	—	2,581	71	2,652
Total other changes	—	2,581	2,438	5,019
At 31 December 2019	50,000	—	1,873	51,873

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(b) Reconciliation of liabilities arising from financing activities (Continued):

	Bank loans RMB'000 (Note 23)	Payables for interest expenses RMB'000 (Note 22)	Lease liabilities RMB'000 (Note 24)	Total RMB'000
At 1 January 2018	74,828	63	5,487	80,378
Changes from financing cash flows:				
Proceeds from new bank loans	30,000	—	—	30,000
Repayment of bank loans	(74,828)	—	—	(74,828)
Capital element of finance lease rentals paid	—	—	(5,487)	(5,487)
Interest element of finance lease rentals paid	—	—	(503)	(503)
Other finance costs paid	—	(2,444)	—	(2,444)
Total changes from financing cash flows	(44,828)	(2,444)	(5,990)	(53,262)
Other changes:				
Finance charges on obligations under finance leases (Note 6(a))	—	—	503	503
Interest expenses and bank charges (Note 6(a))	—	2,384	—	2,384
Total other changes	—	2,384	503	2,887
At 31 December 2018	30,000	3	—	30,003

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(c) 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:

As explained in the Note 19(b), 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**	6,879

20 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.

21 RECEIPTS IN ADVANCE

	2019 RMB'000	2018 RMB'000
Receipts in advance from customers	**1,214**	1,315

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

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

22 ACCRUED EXPENSES AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Payables for construction and purchase of property, plant and equipment	**1,536**	1,770
Payables for staff related costs	**1,819**	3,774
Payables for interest expenses	**—**	3
Deposit	**2,500**	2,500
Others	**2,980**	5,420
Financial liabilities measured at amortised cost	**8,835**	13,467
Payables for miscellaneous taxes	**3,177**	1,946
Deferred income	**2,528**	2,528
	14,540	17,941

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.

23 BANK LOANS

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

	2019 **RMB'000**	2018 RMB'000
Short-term bank loan:		
— secured and guaranteed *(Note (i))*	**50,000**	30,000
	50,000	30,000

Note:

(i) At 31 December 2019, the Group's banking loan facility amounted to RMB85,000,000(31 December 2018: RMB50,000,000) was utilised to the extent of RMB50,000,000 (31 December 2018: RMB30,000,000), which were secured by the property, plant and equipment, investment properties and land use right of the Group and guaranteed by a director of the Company. The aggregate carrying value of the secured property, plant and equipment, investment properties and land use right of the Group is RMB111,508,000 (31 December 2018: RMB58,460,000).

(b) As at 31 December 2019, none of the covenants in respect of the above loans had been breached.

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

24 LEASE LIABILITIES

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

	31 December 2019	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments 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).

(Expressed in RMB unless otherwise indicated)

25 DEFERRED INCOME

	2019 RMB'000	2018 RMB'000
At 1 January	**30,535**	33,063
Credited to profit or loss	**(2,528)**	(2,528)
	28,007	30,535
Less: current portion of deferred income	**(2,528)**	(2,528)
At 31 December	**25,479**	28,007

Deferred income mainly represents government grants related to construction of property, plant and equipment and would be recognised as income on a straight-line basis over the expected useful life of the relevant assets.

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2019 RMB'000	2018 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 7(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

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

(b) Deferred tax assets and liabilities recognised:

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

Deferred tax arising from:	Assets- accrued expenses and government grants and related amortisation 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 7(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 7(a))	(379)	1,371	570	12	—	1,574
At 31 December 2019	4,198	3,944	834	(7)	(3,800)	5,169

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

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

	2019 RMB'000	2018 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 7(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.

27 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

The Company

	Share capital RMB'000 (Note 27(c))	Share premium RMB'000 (Note 27(d)(i))	Shares held under share award plan RMB'000 (Note 27(d)(ii))	Exchange reserve RMB'000 (Note 27(d)(v))	Accumulated (losses)/ retained profits RMB'000	Total RMB'000
Balance at 1 January 2018	7,921	242,361	—	13,723	(8,963)	255,042
Changes in equity for 2018:						
Profit for the year	—	—	—	—	13,338	13,338
Dividend approved and paid in respect of the previous year	—	(16,862)	—	—	—	(16,862)
Other comprehensive income	—	—	—	11,448	—	11,448
Total comprehensive income	—	(16,862)	—	11,448	13,338	7,924
Balance at 31 December 2018	7,921	225,499	—	25,171	4,375	262,966
Balance at 1 January 2019	7,921	225,499	—	25,171	4,375	262,966
Changes in equity for 2019:						
Profit for the year	—	—	—	—	13,954	13,954
Shares purchased under the share award plan (Note 27(c(ii)))	—	—	(85,653)	—	—	(85,653)
Dividend approved and paid in respect of the previous year (Note 27(b(ii)))	—	—	—	—	(17,283)	(17,283)
Other comprehensive income	—	—	—	5,162	—	5,162
Total comprehensive income	—	—	(85,653)	5,162	(5,999)	(83,820)
Balance at 31 December 2019	7,921	225,499	(85,653)	30,333	1,046	179,146

Note:

The Group, including the Company, 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).

27 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends

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

	2019 **RMB'000**	2018 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 **RMB'000**	2018 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

(c) 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

27 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Share capital (Continued)

(ii) Purchase of own shares

During the year, shares were purchased on the Stock Exchange as follows:

Month/Year	Number of shares purchased	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 directors 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, 49,100,000 ordinary shares were purchased as disclosed above. The total amount paid on the purchased 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.

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Shares held under share award plan

The shares held under share award plan represents the consideration paid for shares purchased and held under the share award plan (see Note 27(c)(ii)).

(iii) Other reserve

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

27 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Nature and purpose of reserves (Continued)

(iv) Statutory reserves

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

(v) Exchange reserve

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

(e) Distributability of reserves

At 31 December 2019, the aggregate amount of reserves (including the Company's retained profits, if any, and share premium) available for distribution to equity shareholders of the Company is RMB140,892,000 31 December 2018: RMB229,874,000).

(f) Capital management

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

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

The Group monitors its capital structure on the basis of the ratio of total liabilities to total assets (i.e. the "liability-to-asset ratio"). During the year ended 31 December 2019, the Group's strategy was to maintain the liability-to-asset ratio at an acceptable level. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to equity shareholders, issue new shares, return capital to equity shareholders, raise new debt financing or sell assets to reduce debt. At 31 December 2019, the liability-to-asset ratio of the Group is 13.4% (31 December 2018: 11.0%).

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

28 MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Key management personnel remuneration

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

	2019 **RMB'000**	2018 RMB'000
Short-term employee benefits	**3,672**	3,441
Retirement schemes contributions	**136**	151
	3,808	3,592

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

(b) Transaction with related party

Further details on the guarantee provided by related parties for the Group's bank loan facility are disclosed in Note 23.

(c) Applicability of the Listing Rules relating to connected transactions

None of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

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

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables, deposit and other receivables and contract assets. The Group's exposure to credit risk arising from cash and cash equivalents and bills receivable is limited because the counterparties are banks and financial institutions with sound credit standings, for which the Group considers to have low credit risk.

Except for the financial guarantees given by the Group as set out in Note 31, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in Note 31.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At 31 December 2019, 76.3% (31 December 2018: 88.7%) and 96.7% (31 December 2018: 96.3%) of the total trade receivables were due from the Group's largest debtor group and the five largest debtors respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(a) Credit risk (Continued)

Trade receivables (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	2019		
	Expected loss rate %	**Gross carrying amount RMB'000**	**Loss allowance RMB'000**
Current (not past due)	0.60%	33,702	202
Less than 1 month past due	1.00%	33,657	337
1 to 3 months past due	5.00%	48,520	2,426
3 to 6 months past due	7.00%	15,389	1,077
		131,268	4,042

	2018		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.01%	19,103	2
Less than 1 month past due	0.02%	18,356	3
1 to 3 months past due	0.03%	21,537	7
		58,996	12

Expected loss rates are based on expected loss rates from historical loss experiences and market practice, adjusted to reflect differences between economic conditions during the period over which the comparable data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(a) Credit risk (Continued)

Trade receivables (Continued)

Movements in the loss allowance account in respect of trade receivables during the year are as follows:

	2019 RMB'000	2018 RMB'000
Balance at 1 January	**(12)**	—
Impairment losses recognised during the year	**(4,030)**	(12)
Balance at 31 December	**(4,042)**	(12)

(b) Liquidity risk

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

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

	2019				
	Contractual undiscounted cash out flow				
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 year but less than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Trade payables	1,826	-	-	1,826	1,826
Accrued expenses and other payables measured at amortised cost	8,835	-	-	8,835	8,835
Bank loans	51,558	-	-	51,558	50,000
Lease liabilities	850	850	284	1,984	1,873
	63,069	850	284	64,203	62,534

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(b) Liquidity risk (Continued)

	2018			
	Contractual undiscounted cash out flow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	Total RMB'000	Carrying amount RMB'000
Accrued expenses and other payables measured at amortised cost	13,467	—	13,467	13,467
Bank loans	30,110	—	30,110	30,000
	43,577	—	43,577	43,467

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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

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

	2019		2018	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Bank loans	**5.30%**	**50,000**	5.35%	30,000
Lease liabilities *(Note)*	**5.33%**	**1,873**	—	—
		51,873		**30,000**

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. Under this approach, the comparative information is not restated. See Note 2(c).

No sensitivity analysis was performed for the years ended 31 December 2019 and 2018, as the Group's fixed rate borrowings do not expose the Group to cash flow interest rate risk.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Currency risk

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

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

(i) Exposure to currency risk

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

	Exposure to foreign currencies (expressed in RMB)	
	2019	2018
	RMB'000	RMB'000
Prepayments, deposits and receivables	**1,642**	—
Cash and cash equivalents	**17**	16

(ii) Sensitivity analysis

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

	2019		2018	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in profit after tax and retained profits**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits
		RMB'000		RMB'000
RMB	**5%**	**83**	5%	1
	(5%)	**(83)**	(5%)	(1)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Currency risk (Continued)

(ii) Sensitivity analysis (Continued)

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

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

(e) Fair values

The Group does not have any financial instruments measured at fair value at 31 December 2019 and 2018.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 December 2019 and 2018.

30 COMMITMENTS

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2018 RMB'000
Within 1 year	272

The Group is the lessee in respect of an office premise held under leases which was previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the initial adoption of IFRS 16 does not have a material impact on this lease and the initial adoption of IFRS 16 does not have a material impact on the consolidated financial statements of the Group at 1 January 2019 (see Note 2(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in Note 2(h), and the details regarding the Group's future lease payments are disclosed in Note 24.

31 CONTINGENT LIABILITIES

At 31 December 2019, the Group has the following guarantees:

	2019 RMB'000	2018 RMB'000
Time deposit pledges for bank loans of a third party supplier *(Note (i))*	**—**	92,900
Guarantee for the other loan of a third party customer *(Note (ii))*	**50,000**	50,000
	50,000	142,900

Notes

(i) Further details of this guarantee are set out in Note 18.

(ii) At 31 December 2019, 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 2018: RMB50,000,000). This other loan will be matured before June 2020.

32 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2019 RMB'000	2018 RMB'000
Non-current assets			
Interests in a subsidiary		**179,018**	261,683
Current assets			
Prepayments and other receivables		**121**	616
Cash and cash equivalents		**934**	1,829
		1,055	2,445
Current liabilities			
Accrued expenses and other payables		**927**	1,162
Net current assets		**128**	1,283
NET ASSETS		**179,146**	262,966
CAPITAL AND RESERVES	27(a)		
Share capital		**7,921**	7,921
Reserves		**171,225**	255,045
TOTAL EQUITY		**179,146**	262,966

Approved and authorised for issue by the board of directors on 30 March 2020.

Yim Tsun
Director

Li Li
Director

33 SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

The Novel Coronavirus Pneumonia outbreak (the "NCP Outbreak") since early 2020 has brought about uncertainties in the Group's operating environment and has impacted the Group's operations and financial position.

Although two factories of the Group in Handan, Hebei Province, and Huai'an, Jiangsu Province, the PRC, have gradually resumed limited production since 24 February 2020, the NCP Outbreak has caused, among others, (i) the shortage of workforce in the production facilities of the Group; (ii) delay in delivery of raw materials to the Group due to the disruption to the logistics network; 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 revenue.

As far as the Group's businesses are concerned, the NCP Outbreak may cause production and delivery delays to the Group, but the directors of the Company consider that such impact could be reduced by the Group's keeping close contact with suppliers and customers and expedition of the production process upon the cessation of the NCP Outbreak so as to minimise the impact on both parties.

The Group has been closely monitoring the impact of the developments on the Group's businesses, and will keep continuous attention on the change of situation and make timely response in the future.

34 COMPARATIVE FIGURES

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2(c).

35 IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors of the Company consider the immediate and ultimate holding company of the Company at 31 December 2019 to be Brilliant Plan Holdings Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IFRS 3, *Definition of a business*	1 January 2020
Amendments to IAS 1 and IAS 8, *Definition of material*	1 January 2020
Amendments to IAS 1, *Classification of Liabilities as Current or Non-current*	1 January 2022

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.