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China Wood Optimization (Holding) Limited

中國優材(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1885)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2020, operating results of the Group were as follows:

- Revenue for the six months ended 30 June 2020 amounted to about RMB38.6 million (2019: RMB89.4 million), representing a substantial decrease of 56.8% as compared to the same period of previous financial year;
- Profit for the six months ended 30 June 2020 amounted to about RMB1.1 million (2019: RMB26.7 million), representing a substantial decrease of 95.9% as compared to the same period of previous financial year;
- Basic and diluted earnings per share for the six months ended 30 June 2020 based on weighted average number of ordinary shares of about 950,900,000 shares (2019: 992,117,000 shares) in issue was about RMB0.1 cent (2019: RMB2.7 cents); and
- The directors of the Company (the “**Directors**”) do not declare the payment of an interim dividend for the six months ended 30 June 2020 (2019: Nil).

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board of Directors (the “**Board**”) of China Wood Optimization (Holding) Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2020 together with the comparative unaudited figures for the corresponding period in 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2020 - unaudited

(Expressed in Renminbi (“RMB”))

		Six months ended 30 June	
	Note	2020	2019
		RMB'000	RMB'000
Revenue	4	38,605	89,436
Cost of sales		<u>(16,309)</u>	<u>(30,826)</u>
Gross profit	4	22,296	58,610
Other income		15,212	10,561
Selling expenses		(1,999)	(2,116)
Administrative expenses		(26,790)	(31,968)
Impairment losses on trade receivables	10	<u>(6,104)</u>	<u>(131)</u>
Profit from operations		2,615	34,956
Finance costs	5(a)	<u>(1,366)</u>	<u>(1,322)</u>
Profit before taxation	5	1,249	33,634
Income tax	6	<u>(130)</u>	<u>(6,898)</u>
Profit attributable to equity shareholders of the Company for the period		<u>1,119</u>	<u>26,736</u>
Earnings per share			
— Basic and diluted (RMB)	7	<u>0.001</u>	<u>0.027</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2020 - unaudited

(Expressed in RMB)

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Profit for the period	1,119	26,736
Other comprehensive income for the period (before and after tax):		
Item that may be reclassified subsequently to profit or loss:		
— Exchange differences on translation into presentation currency	<u>98</u>	<u>(359)</u>
Total comprehensive income attributable to equity shareholders of the Company for the period	<u>1,217</u>	<u>26,377</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 - unaudited

(Expressed in RMB)

	Note	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Non-current assets			
Property, plant and equipment	8	152,615	162,460
Right-of-use assets	9	52,384	53,319
Investment properties		70,050	72,523
Deferred tax assets	14	10,187	8,969
		<u>285,236</u>	<u>297,271</u>
Current assets			
Inventories		69,360	41,011
Trade receivables	10	143,707	127,226
Prepayments, deposits and other receivables	11	194,684	86,588
Prepaid income tax		2,302	2,302
Restricted bank deposits	12	1,518	1,516
Cash and cash equivalents	13	52,699	203,595
		<u>464,270</u>	<u>462,238</u>
Current liabilities			
Trade payables		—	1,826
Receipts in advance		2,273	1,214
Accrued expenses and other payables		8,192	14,540
Bank loans		50,000	50,000
Lease liability		847	831
Income tax payable		903	3,391
		<u>62,215</u>	<u>71,802</u>
Net current assets		<u>402,055</u>	<u>390,436</u>
Total assets less current liabilities		<u>687,291</u>	<u>687,707</u>

	Note	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Non-current liabilities			
Lease liability		673	1,042
Deferred income		24,215	25,479
Deferred tax liability	14	3,800	3,800
		<u>28,688</u>	<u>30,321</u>
NET ASSETS		<u>658,603</u>	<u>657,386</u>
CAPITAL AND RESERVES			
Share capital	15	7,921	7,921
Reserves		650,682	649,465
TOTAL EQUITY		<u>658,603</u>	<u>657,386</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

1 CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 6 June 2012 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time. The shares of the Company were listed on the GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 6 January 2014. The listing of the Company’s shares was transferred from the GEM to the Main Board of the Stock Exchange on 12 September 2016. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2020 comprise the Group. The principal activities of the Group are sales of processed wood panels and rendering of wood processing procedure service.

2 BASIS OF PREPARATION

This interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with International Accounting Standard (“**IAS**”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the “**IASB**”). It was authorised for issue on 28 August 2020.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

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

This interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

The interim financial information is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410 (“**HKSRE 2410**”), *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants.

The financial information relating to the financial year ended 31 December 2019 that is included in the interim financial information as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2019 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 30 March 2020.

3 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to IFRSs issued by the IASB to these financial statements for the current accounting period:

- Amendments to IFRS 3, *Definition of a Business*
- Amendments to IAS 1 and IAS 8, *Definition of Material*
- Amendments to IFRS 9, IAS 39 and IFRS 7, *Interest Rate Benchmark Reform*
- Amendments to IFRS 16, *Covid-19-Related Rent Concessions*

None of these 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 in this interim financial information. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period except for the amendment to IFRS 16, *Covid-19-Related Rent Concessions*, which provides a practical expedient that allows lessees not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

4 REVENUE AND SEGMENT REPORTING

(a) *Disaggregation of revenue*

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products or service lines		
— Sales of Processed Wood Panels	9,586	15,046
— Rendering of Wood Processing Procedure Service	29,019	74,390
	<u>38,605</u>	<u>89,436</u>

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

(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 period ended 30 June 2020. 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**

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the six months ended 30 June 2020 and 2019. 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, 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.

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

	Six months ended 30 June 2020		
	Sales of Processed Wood Panels RMB'000	Rendering of Wood Processing Procedure Service RMB'000	Total RMB'000
Revenue from external customers and reportable segment revenue	<u>9,586</u>	<u>29,019</u>	<u>38,605</u>
Reportable segment gross profit	<u>2,315</u>	<u>19,981</u>	<u>22,296</u>

	Six months ended 30 June 2019		
	Sales of Processed Wood Panels RMB'000	Rendering of Wood Processing Procedure Service RMB'000	Total RMB'000
Revenue from external customers and reportable segment revenue	15,046	74,390	89,436
Reportable segment gross profit	4,090	54,520	58,610

(ii) Geographic information

The Group's revenue is generated from the Sales of Processed Wood Panels 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 PROFIT BEFORE TAXATION

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

(a) Finance costs:

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Interest on bank loans	1,311	1,302
Interest on lease liability	43	19
Bank charges and other finance costs	12	1
Total finance costs	1,366	1,322

(b) Staff costs:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Salaries, wages and other benefits	8,561	7,716
Contributions to defined contribution retirement schemes	245	712
	<u>8,806</u>	<u>8,428</u>

(c) Other items:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Depreciation and amortisation		
– Property, plant and equipment	10,621	12,501
– Investment properties	2,473	1,562
– Right-of-use assets	982	696
Net loss on disposal of property, plant and equipment	—	1,796
Operating lease charges of short-term leases	163	348
Research and development costs (including costs relating to staff costs disclosed in <i>Note 5(b)</i>)	2,129	6,145
Interest income	(4,330)	(4,910)
Cost of inventories	<u>14,566</u>	<u>26,172</u>

6 INCOME TAX

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Current taxation:		
– The PRC Corporate Income Tax	1,348	5,745
– The PRC Withholding Tax	—	3,800
	<u>1,348</u>	<u>9,545</u>
Deferred taxation (<i>Note 14</i>):		
– Origination and reversal of temporary differences	(1,218)	(847)
– Retained profits to be distributed	—	(1,800)
	<u>(1,218)</u>	<u>(2,647)</u>
	<u>130</u>	<u>6,898</u>

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

The Company and the 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 six months ended 30 June 2020 (six months ended 30 June 2019: 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 six months ended 30 June 2020 (six months ended 30 June 2019: RMBNil).

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 six months ended 30 June 2020 (six months ended 30 June 2019: 25%). One of the subsidiaries of the Group established in the PRC obtained approval from the tax bureau to be taxed as an advanced and new technology enterprise. Pursuant to the approval, this subsidiary is entitled to a preferential PRC Corporate Income Tax rate of 15% for a period of three years ending 31 December 2020 (six months ended 30 June 2019: 15%). The other one of the PRC subsidiaries is in the process of applying the same preferential PRC Corporate Income Tax rate of 15% for another three-year period from 2020 to 2022, whereby the Directors consider this subsidiary has satisfied the conditions of being an advanced and new technology enterprise according to the relevant tax rules and regulations, and therefore adopt 15% as the preferential PRC Corporate Income Tax rate for the six months ended 30 June 2020 (six months ended 30 June 2019: 15%). In addition, these subsidiaries are also entitled to an additional tax deductible allowance calculated at 75% (six months ended 30 June 2019: 75%) of the qualified research and development costs incurred by these subsidiaries.

7 BASIC AND DILUTED EARNINGS PER SHARE

(a) *Basic earnings per share*

The basic earnings per share for the six months ended 30 June 2020 is calculated based on the profit attributable to equity shareholders of the Company of RMB1,119,000 (six months ended 30 June 2019: RMB26,736,000) and the weighted average of 950,900,000 ordinary shares (six months ended 30 June 2019: 992,117,000 ordinary shares) in issue during the interim period, calculated as follows:

	Six months ended 30 June	
	2020	2019
	'000	'000
Issued ordinary shares at 1 January	950,900	1,000,000
Effect of shares purchased under the share award plan (Note 15(b))	—	(7,883)
Weighted average number of ordinary shares at 30 June	<u>950,900</u>	<u>992,117</u>

(b) *Diluted earnings per share*

There was no difference between basic and diluted earnings per share as the Company did not have any dilutive potential shares outstanding during the six months ended 30 June 2020 and 2019.

8 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired items of property, plant and equipment with a cost of RMB776,000 (six months ended 30 June 2019: RMB5,380,000). Items of building and machinery with a net book value of RMBNil were disposed of during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB7,664,000).

9 RIGHT-OF-USE ASSETS

During the six months ended 30 June 2020, the Group did not enter into any new lease agreement and therefore recognised the additions of right-of-use assets of RMBNil (six months ended 30 June 2019: RMB2,277,000). The lease of office contains minimum monthly lease payment terms that are fixed. The payment term is common in offices in Hong Kong.

10 TRADE RECEIVABLES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Trade receivables from third parties, net of loss allowance	<u>143,707</u>	<u>127,226</u>

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

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Aged within 1 month	2,427	33,500
Aged from 1 to 3 months	41,535	63,500
Aged from 3 to 6 months	15,972	30,226
Aged from 6 to 12 months	83,773	—
	<u>143,707</u>	<u>127,226</u>

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Balance at 1 January	(4,042)	(12)
Impairment losses recognised during the period/year	<u>(6,104)</u>	<u>(4,030)</u>
Balance at 30 June/31 December	<u>(10,146)</u>	<u>(4,042)</u>

11 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Prepayments for purchase of inventories	63,524	32,524
Loans to third parties (<i>Notes (i) (ii) (iii)</i>)	117,000	50,000
Others	14,160	4,064
	<u>194,684</u>	<u>86,588</u>

Notes:

- (i) As at 10 August 2018, Jiangsu AMS Wood Industry Company Limited (“Jiangsu AMS”) entered into a short-term loan agreement with a third party borrower pursuant to which Jiangsu AMS agreed to lend to this third party borrower a one year short-term loan in the principal amount of RMB50,000,000. The interest rate of this loan is 10% per annum.

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.

As at 14 August 2020, 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 2020 to 17 February 2021.

- (ii) During the six months ended 30 June 2020, Jiangsu AMS and Hebei AMS Wood Processing Co., Ltd. (“Hebei AMS”) entered into short-term loan agreements with two third-party customers, respectively, pursuant to which Jiangsu AMS and Hebei AMS agreed to lend to these third-party customers short-term loans in the principal amounts of RMB60,000,000 in total with maturity date on 31 December 2020. The interest rates of these loans range from 5% to 7% per annum.
- (iii) As at 27 May 2020, Hebei AMS entered into one year short-term loans with certain third-party borrowers in the principal amount of RMB7,000,000 in total. The interest rates of these loans are 5% per annum.
- (iv) All of the short-term prepayments, deposits and other receivables are expected to be recovered or recognised as expenses within one year.

12 RESTRICTED BANK DEPOSITS

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Restricted bank deposits	<u>1,518</u>	<u>1,516</u>

13 CASH AND CASH EQUIVALENTS

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Cash at bank and on hand	<u>52,699</u>	<u>203,595</u>

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.

14 DEFERRED TAX ASSETS AND LIABILITIES

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

Deferred tax arising from:	Assests — Government grants and related amortisation RMB'000	Asset — Unused tax losses RMB'000	Asset — 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	Liability — Retained profits to be distributed RMB'000	Net RMB'000
At 1 January 2019	4,577	2,573	264	(19)	(3,800)	3,595
(Charged)/credited to the consolidated statement of profit or loss	<u>(379)</u>	<u>1,371</u>	<u>570</u>	<u>12</u>	<u>—</u>	<u>1,574</u>
At 31 December 2019	4,198	3,944	834	(7)	(3,800)	5,169
(Charged)/credited to the consolidated statement of profit or loss (Note 6)	<u>(190)</u>	<u>504</u>	<u>897</u>	<u>7</u>	<u>—</u>	<u>1,218</u>
At 30 June 2020	<u>4,008</u>	<u>4,448</u>	<u>1,731</u>	<u>—</u>	<u>(3,800)</u>	<u>6,387</u>

15 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: RMBNil).

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK\$Nil (six months ended 30 June 2019: HK\$0.02 per ordinary share)	—	17,283

The Directors resolved on 30 March 2020 that a final dividend of HK\$0.02 per ordinary share was to be distributed to the equity shareholders of the Company. As this resolution of dividend distribution was not approved by the equity shareholders at the annual general meeting on 20 May 2020, the final dividend was not paid.

(b) Purchase of own shares

As announced on 29 March 2019, the Board 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 below.

Details of the shares held under the Plan are set out below:

	Average purchase price HK\$	No. of Shares held '000	Value RMB'000
At 1 January 2019		—	—
Shares purchased during the year	1.97	49,100	85,653
At 31 December 2019, 1 January 2020 and 30 June 2020		<u>49,100</u>	<u>85,653</u>

During the six months ended 30 June 2020, no ordinary shares were purchased for the Plan (the six months ended 30 June 2019: 27,348,000 ordinary shares were purchased for the Plan with an average purchase price of HK\$2.00 per ordinary share, equivalent to approximately RMB1.73 per share). By the end of 30 June 2020, there was no share which has been granted.

16 CONTINGENT LIABILITIES

At 30 June 2020, the Group has the following guarantees:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Guarantee for other loan of a third party customer (<i>Note</i>)	<u>—</u>	<u>50,000</u>

Note:

As 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. This other loan was expired and repaid by the borrower during the six months ended 30 June 2020 and the guarantee was released accordingly.

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2020, 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.

Impact Of The Pandemic

The outbreak of the novel coronavirus (COVID-19) pandemic (the “**Pandemic**”) in January 2020 in the PRC has resulted in, 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 the 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, thereby affecting the Group’s sales for the six months ended 30 June 2020.

In the first half of 2020, the Group faced a severe operating environment due to the adverse impact of the Pandemic. The Group recorded a substantial decrease in revenue by about RMB50.8 million or 56.8% for the six months ended 30 June 2020 compared to the corresponding period in 2019. The substantial decrease in revenue was mainly brought by the substantially weakened demand of the Group’s less-shaved Processed Wood Panels and Wood Processing Procedure Services from downstream manufacturers engaged in the manufacture and sale of solid wood furniture. Given the economic instabilities arising from the Pandemic, the desire of domestic retail consumers to buy durable goods such as solid wood furniture diminished and resulted in the weakened demand of the Group’s products and wood processing services from its downstream manufacturers.

Furthermore, as certain customers of the Group are export-oriented solid wood furniture manufacturers, the outbreak of the Pandemic in Europe and United States in the second quarter of 2020 deal a blow to their overseas business thereby leading to the prolonged trade debt repayments from these export-oriented manufacturers. As at 30 June 2020, the Group’s trade receivables, before net of loss allowance, amounted to about RMB153.9 million, which increased by about RMB22.6 million or 17.2% compared to the trade receivables, before net of loss allowance, as at 31 December 2019. In order to control credit risks, the Group suspended sale transactions with certain export-oriented manufacturers and had been negotiating the debt repayment plans with them. Although there was no historical credit loss incurred from existing customers, in view of the aging of trade receivables, the Group made a provision for impairment of trade receivables of about RMB10.1 million as at 30 June 2020 (31 December 2019: RMB4.0 million).

As a result of the adverse impact of the Pandemic to the Group’s operation as mentioned above, the Group recorded a substantial decrease in net profit by about RMB25.6 million or 95.9% from about RMB26.7 million for the six months ended 30 June 2019 to about RMB1.1 million for the six months ended 30 June 2020.

Measures To Cope With The Impact Of The Pandemic

Compared to the situation in many other countries, the community quarantine measures implemented by the PRC have been more effective and the pace of economic recovery in the country has been gradually accelerating even the Pandemic has not been completely eliminated. In order to better seize the opportunities of economic recovery, the Group purchased batches of poplar raw wood panels at lower prices and processed some of them with the Group's Wood Processing Procedure Services in the first half of 2020 resulting in an increase in inventory of about RMB28.4 million and an increase in prepayments to suppliers of about RMB31.0 million as at 30 June 2020 compared to the corresponding period as at 31 December 2019. This move has allowed the Group to respond quickly to the expected demand growth of its products amid economy recovery in the second half of 2020.

In order to reduce the reliance on revenue derived from export-oriented manufacturers and to support the internal economic circulation advocated by the PRC government, the Group strengthened its cooperation with solid wood furniture manufacturers focusing on the domestic consumer market and reinforcing the promotion of their solid wood furniture made with the Group's processed wood panels or so-called "Salicaceae" ("莎麗格") amid economy recovery in the PRC.

In the wake of the uncertainties arising from the Pandemic and to maintain adequate cash flows to meet the business operating needs, the Group has tightened its credit control policy and new customers have to settle sales orders in cash and do not enjoy any credit period. For the existing customers with overdue trade debts, the Group has suspended sales transactions with them until their trade debts are reduced to a reasonable level.

Recent Developments

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 originally 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. On 14 August 2020, Jiangsu AMS entered into another supplemental loan agreement with Hebei Overseas pursuant to which Jiangsu AMS agreed to extend the term of the Loan for another six months to up to 17 February 2021. For details of the provision of loan, please refer to the announcements of the Company dated 10 August 2018, 16 August 2019, 14 August and 19 August 2020.

OUTLOOK

The Group will continue to grow 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.

In view of the challenges and uncertainties ahead, the Group will continue to proactively monitor the situation, impose stringent cost control measures and focus on its cash flow management. The Group will continue to adopt a prudent approach to capital expenditure projects such as the proposed expansion of production facilities in Jiangsu Province.

Financial Review

Revenue

The Group's revenue substantially decreased by about RMB50.8 million or 56.8% from about RMB89.4 million for the six months ended 30 June 2019 to about RMB38.6 million for the six months ended 30 June 2020. The decrease in revenue was mainly attributable to weakened sales performance brought about by the Pandemic. Certain customers of the Group had either temporarily shut down their factory operations or cut down their purchases of less-shaved Processed Wood Panels or Wood Processing Procedure Service orders. As a result, the Group recorded a substantial decrease in revenue from sales of less-shaved Processed Wood Panels and rendering of Wood Processing Procedure Service.

REVENUE BY SEGMENT

Analysis of revenue by segment is as follows:

	Six months ended 30 June							
	2020				2019			
	<i>Weight (Ton) (Note 1)</i>	<i>Volume (m³)</i>	<i>RMB'000</i>	<i>%</i>	<i>Weight (Ton) (Note 1)</i>	<i>Volume (m³)</i>	<i>RMB'000</i>	<i>%</i>
Less-shaved Processed Wood Panels	–	2,691	9,586	24.8	–	4,109	15,046	16.8
Rendering of Wood Processing Procedure Service	14,905	–	29,019	75.2	38,647	–	74,390	83.2
	<u>14,905</u>	<u>2,691</u>	<u>38,605</u>	<u>100.0</u>	<u>38,647</u>	<u>4,109</u>	<u>89,436</u>	<u>100.0</u>

Note:

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

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

	Six months ended 30 June	
	2020	2019
	RMB	RMB
Less-shaved Processed Wood Panels		
— average selling price per cubic meter	<u>3,562</u>	<u>3,662</u>
Rendering of Wood Processing Procedure Service		
— average selling price per ton consumed	<u>1,947</u>	<u>1,925</u>

Less-shaved Processed Wood Panels

Revenue from sales of less-shaved Processed Wood Panels decreased by about RMB5.4 million, or 36.0% from about RMB15.0 million for the six months ended 30 June 2019 to about RMB9.6 million for the six months ended 30 June 2020. The decrease was primarily due to the Pandemic which resulted in extensive disruption to the normal operation of the Group's customers in the PRC, including the downstream manufacturers of solid wood furniture, which requires Wood Processing Procedure Services from the Group. The sales volume of less-shaved Processed Wood Panels also decreased by about 1,418m³ from about 4,109m³ for the six months ended 30 June 2019 to about 2,691m³ for the six months ended 30 June 2020.

The average selling price of less-shaved Processed Wood Panels decreased from about RMB3,662/m³ for the six months ended 30 June 2019 to about RMB3,562/m³ for the six months ended 30 June 2020. The decrease was mainly attributable to the sales discount on certain items of less-shaved Processed Wood Panels offered to the existing customers due to the Pandemic.

Rendering of Wood Processing Procedure Service

The Group's impregnation fluid and Wood Processing Procedure are its core technologies which are difficult to replicate in a short time. Through providing Wood Processing Procedure Service, the Group can reveal its intrinsic value and enjoy a higher gross profit margin from the service than that of less-shaved Processed Wood Panels. Therefore, the Group enhanced its effort to render Wood Processing Procedure Service to customers who can carry out purchase raw wood panels, and can choose to conduct the drying, shaving and cutting by themselves or elsewhere at a lower cost than the Group during the six months ended 30 June 2020. The customers provide their raw wood panels to the Group and the Group charged an average processing fee of about RMB1,947 per ton of the impregnation fluid consumed during the Wood Processing Procedure for the six months ended 30 June 2020, as compared to the average processing fee of about RMB1,925 per ton for the six months ended 30 June 2019. As discussed under the paragraph headed "Revenue" above, due to the Pandemic, certain customers of the Group had either temporarily shut down their factory operations or cut down their purchase of less-shaved Processed Wood Panels or Wood Processing Procedure Service orders placed with us. As a result, revenue derived from rendering of Wood Processing Procedure Service substantially decreased by about RMB45.4 million or 61.0% from about RMB74.4 million for the six months ended 30 June 2019 to about RMB29.0 million for the six months ended 30 June 2020.

Cost of Sales

Cost of sales of the Group decreased by about RMB14.5 million or 47.1% from about RMB30.8 million for the six months ended 30 June 2019 to about RMB16.3 million for the six months ended 30 June 2020. The decrease in cost of sales was mainly because of decrease in revenue due to the Pandemic.

Gross Profit

Gross profit of the Group substantially decreased by about RMB36.3 million or 61.9% from about RMB58.6 million for the six months ended 30 June 2019 to about RMB22.3 million for the six months ended 30 June 2020. The decrease in gross profit of the Group was mainly attributable to the decrease in revenue from sales of less-shaved Processed Wood Panel and rendering of Wood Processing Procedure Service for the six months ended 30 June 2020 as discussed under the paragraph headed “Revenue” above.

GROSS PROFIT MARGIN BY SEGMENT

Overall gross profit margin of the Group decreased from about 65.5% for the six months ended 30 June 2019 to about 57.8% for the six months ended 30 June 2020. Such decrease was mainly attributable to the decrease in revenue share from rendering of Wood Processing Procedure Service which yields a higher gross profit margin of about 68.9% for the six months ended 30 June 2020 than that of sales of less-shaved Processed Wood Panels of about 24.1% for the six months ended 30 June 2020.

Less-shaved Processed Wood Panels

Gross profit margin of less-shaved Processed Wood Panels decreased from about 27.2% for the six months ended 30 June 2019 to about 24.1% for the six months ended 30 June 2020. Such decrease was mainly attributable to the decrease in average selling price per cubic meter of less-shaved Processed Wood Panels from about RMB3,662/m³ for the six months ended 30 June 2019 to about RMB3,562/m³ for the six months ended 30 June 2020. The decrease in average selling price was mainly due to the sales discount on certain items of less-shaved Processed Wood Panels offered to the existing customers due to the Pandemic.

Rendering of Wood Processing Procedure Service

Gross profit margin of rendering of Wood Processing Procedure Service decreased from about 73.3% for the six months ended 30 June 2019 to about 68.9% for the six months ended 30 June 2020. The decrease in gross profit margin arose mainly because of the fact that some of the production costs are fixed costs and the decrease in demand of rendering of Wood Processing Procedure Services due to the Pandemic resulted in higher unit cost of sales.

Other Income

Other income mainly comprises rental income from operation leases, interest income, income from government grants and loss on disposal of property, plant and equipment. The Group's other income increased by about RMB4.6 million or 43.4% from about RMB10.6 million for the six months ended 30 June 2019 to about RMB15.2 million for the six months ended 30 June 2020. The increase was mainly due to the increase in rental income from operating leases. The rental income from operating leases increased by about RMB2.6 million from about RMB6.0 million for the six months ended 30 June 2019 to about RMB8.6 million for the six months ended 30 June 2020. The increase in rental income from operation leases was mainly due to the new lease of certain facilities and workshops of our factory located in Handan, Hebei Province (the "**Handan Factory**") to one independent customer since September 2019.

Furthermore, due to the upgrading of the production facilities of the Handan Factory to comply with the air pollution control work plan, some obsoleted equipment had been disposed of and recorded a loss on disposal of property, plant and equipment of about RMB1.8 million for the six months ended 30 June 2019. There was no such loss on disposal of property, plant and equipment recorded for the six months ended 30 June 2020.

Selling Expenses

The Group's selling expenses remained stable at about RMB2.0 million and about RMB2.1 million for the six months ended 30 June 2020 and 2019, respectively because there was no major sales and marketing events conducted during these periods.

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 decreased by about RMB5.2 million or 16.3% from about RMB32.0 million for the six months ended 30 June 2019 to about RMB26.8 million for the six months ended 30 June 2020.

The depreciation and amortisation charges increased by about RMB2.8 million from about RMB7.0 million for the six months ended 30 June 2019 to about RMB9.8 million for the six months ended 30 June 2020. The increase was mainly due to the resumption of production and some lease-out of facilities and workshops of the Handan Factory in the second half of 2019.

However, the increase in depreciation and amortisation charges was offset by the decrease in factory suspension losses, research and development expenses and other tax expenses. The factory suspension losses decreased by about RMB2.8 million from about RMB5.0 million for the six months ended 30 June 2019 to about RMB2.2 million for the six months ended 30 June 2020 due to the resumption of production of the Handan Factory in the second half of 2019. The research and development expenses decreased by about RMB3.9 million from about RMB6.9 million for the six months ended 30 June 2019 to about RMB3.0 million for the six months ended 30 June 2020. The decrease was mainly due to the Pandemic and certain research and development projects had been postponed. The other tax expenses decreased by about RMB1.1 million from about RMB3.1 million for the six months ended 30 June 2019 to about RMB2.0 million for the six months ended 30 June 2020. The decrease was mainly because of 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 six months ended 30 June 2020.

Impairment Losses On Trade Receivables

The Group applies the IFRS 9 and measures loss allowances for trade receivables and contract assets at an amount equal to lifetime expected credit losses, which is calculated using a provision matrix. There were no historical credit losses incurred over existing customers and the overall default rate of the Group remained relatively stable and low. However, the Directors were of the opinion that a provision for impairment loss of RMB10.1 million (31 December 2019: RMB4.0 million) was necessary for trade receivables as at 30 June 2020. The net increase in provision for impairment loss amounted to RMB6.1 million for the six months ended 30 June 2020 (the six months ended 30 June 2019: RMB0.1 million), due to larger balances and longer age of trade receivables of the Group as at 30 June 2020.

Finance Costs

The Group's finance costs remained stable for the six months ended 30 June 2020 and 2019 which was about RMB1.4 million and RMB1.3 million respectively.

Income Tax Expenses

The Group's income tax expenses decreased by about RMB6.8 million or 98.6% from about RMB6.9 million for the six months ended 30 June 2019 to about RMB0.1 million for the six months ended 30 June 2020. The effective tax rate of the Group also decreased from 20.5% for the six months ended 30 June 2019 to 10.4% for the six months ended 30 June 2020. The decrease in income tax expenses and effective tax rate were mainly due to the decrease in profits before taxation of a PRC subsidiary of the Group for the six months ended 30 June 2020. In addition, a PRC Withholding Tax of RMB2.0 million was accrued during the six months ended 30 June 2019 for a proposed distribution of RMB40.0 million out of the retained profits of a subsidiary of the Group incorporated in the PRC to its immediate holding company in 2019 and there was no such accrual for PRC Withholding Tax for the six months ended 30 June 2020.

Profit for the Period

As a combined result of the factors discussed above, the Group's profit for the period decreased from about RMB26.7 million for the six months ended 30 June 2019 to about RMB1.1 million for the six months ended 30 June 2020. The Group's net profit margin also decreased from about 29.9% for the six months ended 30 June 2019 to about 2.8% for the six months ended 30 June 2020. Such decrease was mainly due to the decrease in revenue and the increase in impairment losses on trade receivables for the six months ended 30 June 2020 which was partially offset by the increase in other income and the decreases in administrative expenses and income tax expenses.

LIQUIDITY, FINANCIAL RESOURCES AND TREASURY POLICY

	As at 30 June 2020	As at 31 December 2019
Current ratio	7.46 times	6.44 times
Gearing ratio*	0.13 times	0.15 times

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

The current ratio of the Group as at 30 June 2020 was about 7.46 times as compared to that of about 6.44 times as at 31 December 2019. The gearing ratio as at 30 June 2020 was about 0.13 times as compared to that of 0.15 times as at 31 December 2019. The increase in current ratio and the decrease in gearing ratio were mainly due to the decrease in accrued expenses and other payables of RMB6.3 million during the six months ended 30 June 2020.

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 and bank loans.

CAPITAL COMMITMENTS

The Group's capital commitments amounted to nil as at 30 June 2020 (31 December 2019: Nil).

PLEDGE OF ASSETS

At 30 June 2020, the Group's property, plant and equipment, investment properties and land use right with a carrying amount of about RMB108.9 million (31 December 2019: RMB111.5 million) were pledged to banks for bank borrowings.

CONTINGENT LIABILITIES

During the year ended 31 December 2019, 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 during the six months ended 30 June 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 six months ended 30 June 2020.

CAPITAL STRUCTURE

There has been no change in the capital structure of the Group during the six months ended 30 June 2020. The capital of the Group only comprises ordinary shares.

SIGNIFICANT INVESTMENTS

There was no significant investment held by the Group as at 30 June 2020 (31 December 2019: Nil).

FOREIGN CURRENCY EXPOSURE

During the six months ended 30 June 2020, the Group's monetary assets and transactions were mainly denominated in RMB and Hong Kong Dollars (“**HK\$**”). The management of the Group noted the recent fluctuation in the exchange rate between RMB and HK\$, and is of the opinion that it does not currently have a material adverse impact on the Group's financial position. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

EMPLOYEES AND EMOLUMENT POLICY

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

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

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

As at 30 June 2020, the Group employed 193 employees, the total staff costs for the six months ended 30 June 2020 amounted to RMB8.8 million (2019: RMB8.4 million).

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

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

As at 30 June 2020, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as follows:

(i) The Company

Name of Director	Capacity/Nature of Interest	Long/Short position	Number of Shares held	Approximate percentage of shareholding in the Company
Ms. Yim Tsun (<i>Note</i>)	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 ”) <i>(Note)</i>	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 under SFO.

Save as disclosed above, as at 30 June 2020, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS’ AND OTHER PERSONS’ INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2020, 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 <i>(Note)</i>	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 under the SFO.

Save as disclosed above, as at 30 June 2020, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

CORPORATE GOVERNANCE PRACTICES

The Board is of the view that the Company has complied with all applicable code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2020.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE LISTED ISSUERS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct governing dealings by all Directors in the securities of the Company on terms no less exacting than the required standard of dealings as set out in the Listing Rules. Specific enquiries have been made with all Directors, who have confirmed that, during the six months ended 30 June 2020, they were in compliance with the required provisions set out in the Model Code. All Directors declared that they have complied with the required standard of dealings as set out in the Model Code throughout the six months ended 30 June 2020.

DIVIDENDS

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2020 (2019: Nil).

AUDIT COMMITTEE

The Company has established its audit committee on 20 December 2013 with terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process, risk management and internal control systems of the Group. The audit committee has three members comprising the Company's three independent non-executive Directors, namely Mr. Lau Ying Kit, Mr. Pu Junwen and Mr. Zhang Dali. The chairman of the audit committee is Mr. Lau Ying Kit. The audit committee has reviewed the unaudited consolidated financial statements of the Group for the six months ended 30 June 2020.

The unaudited interim financial information of the Company for the six months ended 30 June 2020 is derived from the unaudited interim financial report of the Company, which has been reviewed by the Company's external auditor, KPMG, in accordance with HKSRE 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants.

EVENT AFTER THE REPORTING PERIOD

No significant events took place subsequent to 30 June 2020.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the website of the Stock Exchange at www.hkex.com.hk and on the website of the Company at www.chinawood.com.hk. The interim report for the six months ended 30 June 2020 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the shareholders of the Company and will be published on the aforesaid websites of the Stock Exchange and the Company in due course in accordance with the Listing Rules.

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

Hong Kong, 28 August 2020

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

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

** For identification purpose only*