2020 INTERIM REPORT

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

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).

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2020 - unaudited
(Expressed in Renminbi ("RMB"))

		Six months ended 30 June	
		2020	2019
	Note	**RMB'000**	RMB'000
Revenue	4	**38,605**	89,436
Cost of sales		**(16,309)**	(30,826)
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	12	**(6,104)**	(131)
Profit from operations		**2,615**	34,956
Finance costs	5(a)	**(1,366)**	(1,322)
Profit before taxation	5	**1,249**	33,634
Income tax	6	**(130)**	(6,898)
Profit attributable to equity shareholders of the Company for the period		**1,119**	26,736
Earnings per share			
— Basic and diluted (RMB)	7	**0.001**	0.027

The notes on pages 9 to 26 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 22.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 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	**98**	(359)
Total comprehensive income attributable to equity shareholders of the Company for the period	**1,217**	26,377

The notes on pages 9 to 26 form part of this interim financial report.

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	10	**70,050**	72,523
Deferred tax assets	21	**10,187**	8,969
		285,236	297,271
Current assets			
Inventories	11	**69,360**	41,011
Trade receivables	12	**143,707**	127,226
Prepayments, deposits and other receivables	13	**194,684**	86,588
Prepaid income tax		**2,302**	2,302
Restricted bank deposits	14	**1,518**	1,516
Cash and cash equivalents	15	**52,699**	203,595
		464,270	462,238
Current liabilities			
Trade payables	16	**—**	1,826
Receipts in advance	17	**2,273**	1,214
Accrued expenses and other payables	18	**8,192**	14,540
Bank loans	19(a)	**50,000**	50,000
Lease liability		**847**	831
Income tax payable		**903**	3,391
		62,215	71,802
Net current assets		**402,055**	390,436
Total assets less current liabilities		**687,291**	687,707

The notes on pages 9 to 26 form part of this interim financial report.

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 liabilities			
Lease liability		673	1,042
Deferred income	20	24,215	25,479
Deferred tax liability	21	3,800	3,800
		28,688	30,321
NET ASSETS		658,603	657,386
CAPITAL AND RESERVES	22		
Share capital		7,921	7,921
Reserves		650,682	649,465
TOTAL EQUITY		658,603	657,386

The notes on pages 9 to 26 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020 - unaudited
(Expressed in RMB)

	Attributable to equity shareholders of the Company							
	Share capital RMB'000	Share premium RMB'000	Shares held under share award plan RMB'000	Other reserve RMB'000	Statutory reserves RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2019	7,921	225,499	—	30	51,032	5,411	399,901	689,794
Changes in equity for the six months ended 30 June 2019:								
Profit for the period	—	—	—	—	—	—	26,736	26,736
Other comprehensive income	—	—	—	—	—	(359)	—	(359)
Total comprehensive income	—	—	—	—	—	(359)	26,736	26,377
Dividends approved in respect of the previous year (Note 22(a))	—	—	—	—	—	—	(17,283)	(17,283)
Shares purchased under the share award plan (Note 22(b))	—	—	(47,425)	—	—	—	—	(47,425)
Balance at 30 June 2019 and 1 July 2019	7,921	225,499	(47,425)	30	51,032	5,052	409,354	651,463
Profit for the period	—	—	—	—	—	—	43,355	43,355
Other comprehensive income	—	—	—	—	—	796	—	796
Total comprehensive income	—	—	—	—	—	796	43,355	44,151
Shares purchased under the share award plan (Note 22(b))	—	—	(38,228)	—	—	—	—	(38,228)
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
Balance at 1 January 2020	7,921	225,499	(85,653)	30	59,760	5,848	443,981	657,386
Profit for the period	—	—	—	—	—	—	1,119	1,119
Other comprehensive income	—	—	—	—	—	98	—	98
Total comprehensive income	—	—	—	—	—	98	1,119	1,217
Balance at 30 June 2020	7,921	225,499	(85,653)	30	59,760	5,946	445,100	658,603

The notes on pages 9 to 26 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2020 - unaudited
(Expressed in RMB)

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Operating activities		
Cash (used in)/generated from operations	**(81,918)**	43,003
Income tax paid	**(3,836)**	(10,598)
Net cash (used in)/generated from operating activities	**(85,754)**	32,405
Investing activities		
Payments for purchase of property, plant and equipment	**(816)**	(5,283)
Proceeds from disposal of property, plant and equipment	**—**	3,935
Decrease in time deposits	**—**	83,852
Other cash flows arising from investing activities	**4,330**	4,910
Increase in loans to third parties	**(67,000)**	—
Net cash (used in)/generated from investing activities	**(63,486)**	87,414

The notes on pages 9 to 26 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2020 - unaudited
(Expressed in RMB)

		Six months ended 30 June	
		2020	2019
	Note	**RMB'000**	RMB'000
Financing activities			
Proceeds from new bank loan		**20,000**	20,000
Repayment of bank and other loans		**(20,000)**	—
Capital element of lease rentals paid		**(353)**	(116)
Interest element of lease rentals paid		**(43)**	(19)
Dividend paid	22	**—**	(17,283)
Payments for purchase of shares under share award plan		**—**	(47,425)
Other cash flows arising from financing activities		**(1,311)**	(1,322)
Net cash used in financing activities		**(1,707)**	(46,165)
Net (decrease)/increase in cash and cash equivalents		**(150,947)**	73,654
Cash and cash equivalents at 1 January	15	**203,595**	90,117
Effect of foreign exchange rate changes		**51**	19
Cash and cash equivalents at 30 June	15	**52,699**	163,790

The notes on pages 9 to 26 form part of this interim financial report.

1 CORPORATE INFORMATION

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

2 BASIS OF PREPARATION

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

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 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 report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410 ("**HKSRE 2410**"), *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the board of directors of the Company is included on page 27.

The financial information relating to the financial year ended 31 December 2019 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 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 report. 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
	38,605	89,436

4 REVENUE AND SEGMENT REPORTING (Continued)

(a) Disaggregation of revenue (Continued)

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.

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Segment results (Continued)

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

	Six months ended 30 June 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	**9,586**	**29,019**	**38,605**
Reportable segment gross profit	**2,315**	**19,981**	**22,296**

	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	2019
	RMB'000	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
	8,806	8,428

(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 *Note 5(b)*)	**2,129**	6,145
Interest income	**(4,330)**	(4,910)
Cost of inventories *(Note 11(b))*	**14,566**	26,172

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
	1,348	9,545
Deferred taxation *(Note 21)*:		
— Origination and reversal of temporary differences	**(1,218)**	(847)
— Retained profits to be distributed	**—**	(1,800)
	(1,218)	(2,647)
	130	6,898

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 of the Company consider this subsidiary has satisfied the conditions of being an advanced and new technology enterprise according to the relevant tax rules and regulations, and therefore adopt 15% as the preferential PRC Corporate Income Tax rate for the six months ended 30 June 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 22(b))*	**—**	(7,883)
Weighted average number of ordinary shares at 30 June	**950,900**	992,117

(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 INVESTMENT PROPERTIES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Cost:		
At 1 January	**104,109**	65,795
Reclassification from property, plant and equipment	**—**	38,314
At 30 June/31 December	**104,109**	104,109
Accumulated amortisation:		
At 1 January	**(31,586)**	(14,903)
Reclassification from property, plant and equipment	**—**	(13,212)
Charge for the period/year	**(2,473)**	(3,471)
At 30 June/31 December	**(34,059)**	(31,586)
Net book value:		
At 30 June/31 December	**70,050**	72,523

Notes:

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

(ii) Investment properties leased out under operating leases

The Group leases out investment properties under operating leases. The leases run for an initial period of 1 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 receivable under non-cancellable operating leases are receivable as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Within 1 year	**4,402**	4,580

11 INVENTORIES

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Raw materials	**21,884**	2,075
Finished goods	**47,476**	38,936
	69,360	41,011

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

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Carrying amount of inventories sold	**14,566**	26,172

12 TRADE RECEIVABLES

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

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**	—
	143,707	127,226

12 TRADE RECEIVABLES (Continued)

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

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

13 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 *(Notes (i) (ii) (iii))*	**117,000**	50,000
Others	**14,160**	4,064
	194,684	86,588

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.

13 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(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.

14 RESTRICTED BANK DEPOSITS

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Restricted bank deposits	**1,518**	1,516

15 CASH AND CASH EQUIVALENTS

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

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)

16 TRADE PAYABLES

	At 30 June 2020 RMB'000	At 31 December 2019 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:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Due within 1 month or on demand	—	1,826

17 RECEIPTS IN ADVANCE

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Receipts in advance from customers	**2,273**	1,214

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.

18 ACCRUED EXPENSES AND OTHER PAYABLES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Payables for construction and purchase of property, plant and equipment	**1,496**	1,536
Payables for staff related costs	**883**	1,819
Deposit *(Note (i))*	**—**	2,500
Others	**2,949**	2,980
Financial liabilities measured at amortised cost	**5,328**	8,835
Payables for miscellaneous taxes	**336**	3,177
Deferred income *(Note 20)*	**2,528**	2,528
	8,192	14,540

Notes:

(i) The deposit due to a third party amounting to RMB2,500,000 was released during the six months ended 30 June 2020.

(ii) 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.

19 BANK LOANS

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Short-term bank loans:		
— secured and guaranteed *(Note)*	**50,000**	50,000

Note:

At 30 June 2020, the Group's bank loan facilities amounted to RMB85,000,000 (31 December 2019: RMB85,000,000) were utilised to the extent of RMB50,000,000 (31 December 2019: RMB50,000,000), 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 RMB108,942,769 (31 December 2019: RMB111,508,000).

(b) As at 30 June 2020, none of the covenants in respect of the above loans had been breached.

20 DEFERRED INCOME

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
At 1 January	**28,007**	30,535
Credited to profit or loss	**(1,264)**	(2,528)
	26,743	28,007
Less: Current portion of deferred income	**(2,528)**	(2,528)
At 30 June/31 December	**24,215**	25,479

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.

21 DEFERRED TAX ASSETS AND LIABILITIES

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

Deferred tax arising from:	Assets-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	(379)	1,371	570	12	—	1,574
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)*	(190)	504	897	7	—	1,218
At 30 June 2020	4,008	4,448	1,731	—	(3,800)	6,387

22 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 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 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 below.

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

	Average purchase price	No.of Shares held	Value
	HK$	'000	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		49,100	85,653

22 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Purchase of own shares (Continued)

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.

23 MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Key management personnel remuneration

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Short-term employee benefits	**1,818**	1,636
Retirement schemes contributions	**55**	72
	1,873	1,708

Total remuneration is included in "staff costs" (see Note 5(b)).

(b) Transaction with related party

Further details on the guarantee provided by related parties for the Group's bank loan facilities are disclosed in Note 19.

24 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The Group does not have any financial instruments measured at fair value at 30 June 2020 and 31 December 2019.

25 COMMITMENTS

At 30 June 2020, the Group has no material outstanding capital commitments.

26 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 *(Note)*	—	50,000

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.

27 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to confirm to current period's presentation.

KPMG

Review report to the board of directors of China Wood Optimization (Holding) Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 2 to 26 which comprises the consolidated statement of financial position of China Wood Optimization (Holding) Limited as at 30 June 2020 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
28 August 2020

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			
	Weight (Ton) (Note1)	***Volume (m³)***	***RMB'000***	***%***	*Weight (Ton) (Note1)*	*Volume (m³)*	*RMB'000*	*%*
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
	14,905	**2,691**	**38,605**	**100.0**	38,647	4,109	89,436	100.0

Note:

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

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

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

Management Discussions and Analysis

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 1,418m^3 from about 4,109m^3 for the six months ended 30 June 2019 to about 2,691m^3 for the six months ended 30 June 2020.

The average selling price of less-shaved Processed Wood Panels decreased from about RMB3,662/m^3 for the six months ended 30 June 2019 to about RMB3,562/m^3 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/m^3 for the six months ended 30 June 2019 to about RMB3,562/m^3 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 report, 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 *(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 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 *(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 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.

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

Hong Kong, 28 August 2020

* *For identification purpose only*