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溫嶺浙江工量刃具交易中心股份有限公司

Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1379)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

AND

CHANGE OF PRINCIPAL PLACE OF BUSINESS IN HONG KONG

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2020	2019	Change
	RMB'000	RMB'000	%
Revenue	46,743	50,150	-6.8
Gross profit	37,625	40,887	-8.0
Gross profit margin	80.5%	81.5%	-1.0
Profit for the year	28,081	32,447	-13.5
Net profit margin	60.1%	64.7%	-4.6
Basic and diluted earnings per share (RMB)	0.47	0.54	N/A

The Board has resolved not to recommend the payment of a final dividend for the year ended 31 December 2020.

ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited* (溫嶺浙江工量刃具交易中心股份有限公司) (the “**Company**”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2020, together with the comparative figures for the previous year, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

		2020	2019
	Note	RMB'000	RMB'000
Revenue	3	46,743	50,150
Cost of sales		<u>(9,118)</u>	<u>(9,263)</u>
Gross profit		37,625	40,887
Valuation gains on investment properties	9	3,207	10,787
Other net income	4	4,883	616
Selling and marketing expenses		(113)	(139)
Administrative expenses		<u>(8,158)</u>	<u>(7,224)</u>
Profit from operations		37,444	44,927
Finance costs	5(a)	<u>—</u>	<u>(1,653)</u>
Profit before taxation	5	37,444	43,274
Income tax	6	<u>(9,363)</u>	<u>(10,827)</u>
Profit for the year		<u>28,081</u>	<u>32,447</u>
Other comprehensive income for the year		<u>—</u>	<u>—</u>
Total comprehensive income for the year		<u>28,081</u>	<u>32,447</u>
Earnings per share	8		
Basic and diluted (RMB)		<u>0.47</u>	<u>0.54</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		2020	2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Investment properties	9	1,027,340	937,000
Property, plant and equipment		7,483	8,597
Lease prepayments		581	604
Intangible assets		72	178
Other non-current assets		3,674	10,306
		1,039,150	956,685
Current assets			
Other receivables and prepayments		7,344	23,893
Restricted cash		2,624	–
Cash and cash equivalents		85,389	35,371
		95,357	59,264
Current liabilities			
Short-term loans	10	40,462	57,020
Other payables and accruals		26,292	17,122
Receipts-in-advance, current		53,114	46,254
Current taxation		10,158	6,308
		130,026	126,704
Net current liabilities		(34,669)	(67,440)
Total assets less current liabilities		1,004,481	889,245

		2020	2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current liabilities			
Long-term loan	10	40,000	—
Receipts-in-advance, non-current		78,349	83,482
Deferred tax liabilities		<u>171,429</u>	<u>168,199</u>
		<u>289,778</u>	<u>251,681</u>
NET ASSETS		<u>714,703</u>	<u>637,564</u>
CAPITAL AND RESERVES			
Share capital		80,000	60,000
Reserves		<u>634,703</u>	<u>577,564</u>
TOTAL EQUITY		<u>714,703</u>	<u>637,564</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The Company was formerly named as Wenling City Wenxi Measuring and Cutting Tools Trading Centre Company Limited* (溫嶺市溫西工量刀具交易中心有限公司), which was established as a limited liability company incorporated in Wenling City, Zhejiang Province in the People's Republic of China (the “**PRC**”) on 14 May 2003. The principal activity of the Group is property leasing.

On 3 May 2018, the Company was converted into a joint stock limited liability company with a registered capital of RMB60,000,000 in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). Upon completion of this conversion, the Company changed its name to Wenling Zhejiang Measuring and Cutting Tools Trading Centre Company Limited* (溫嶺浙江工量刀具交易中心股份有限公司).

On 30 December 2020 (the “**Listing Date**”), 20,000,000 H shares of the Company were listed on the Main Board of the Stock Exchange (the “**Listing**”).

2 SIGNIFICANT ACCOUNTING POLICES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. Significant accounting policies adopted by the Group are disclosed below.

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2020 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for investment properties which are stated at its fair value.

The consolidated financial statements have been prepared assuming the Group will continue as a going concern notwithstanding the fact that the Group had net current liabilities of RMB34,669,000 as at 31 December 2020. As at 31 December 2020, the Group had banking facilities of RMB433,000,000 from third-party banks, of which the unutilized amount was RMB351,000,000. The drawdown of the credit facilities is subject to the terms and conditions of each agreement. The Directors are of the opinion that, based on a detailed review of the working capital forecast of the Group for the twelve-month period from 1 January 2021 to 31 December 2021, the Group will take necessary measures, including drawdown of additional loans from the presently available banking facilities, to ensure the Group will have necessary liquid funds to repay its debts as and when they fall due, and to finance its working capital and capital expenditure requirements.

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

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

They are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand (“**RMB’000**”) except when otherwise indicated.

(c) Changes in accounting policies

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

- Amendments to HKFRS 3, *Definition of a Business*
- Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKFRS 3, Definition of a Business

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional “concentration test” that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The adoption of the amendments has no significant impact on the consolidated financial statements.

Amendment to HKFRS 16, Covid-19-Related Rent Concessions

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic (“**COVID-19-related rent concessions**”) are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The adoption of the amendments has no significant impact on the consolidated financial statements.

3 REVENUE

The amount of each significant category of revenue is as follows:

	<i>Note</i>	2020 RMB'000	2019 RMB'000
Property leasing	(i)	43,827	46,925
Others	(ii)	2,916	3,225
Total		46,743	50,150

- (i) During the year, the Group’s revenue mainly consists of revenue from property leasing and provision of property management services. Rental refunds are recognised in the profit and loss when the Group has an obligation for the refunds.

Due to the outbreak of COVID-19 epidemic (the “**Epidemic**”) in China, the trading centre of the Group was closed from 30 January 2020 to 21 February 2020. As required by government regulations, the Company provided a one-off rental refund of approximately RMB4.5 million to its tenants in the fourth quarter of 2020.

- (ii) Others mainly represent revenue for provision of property management services and is recognised over time in accordance with HKFRS 15, *Revenue from Contracts with Customers*.

The Group’s customer base is diversified and no single customer with whom transactions have exceeded 10% of the Group’s revenues during the year.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its provision of property management services such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for provision of property management services that have an original expected duration of one year or less.

4 OTHER NET INCOME

	<i>Note</i>	2020 RMB'000	2019 <i>RMB'000</i>
Interest income from bank deposits		66	113
Government grants	(i)	4,817	500
Others		<u>–</u>	<u>3</u>
Total		<u>4,883</u>	<u>616</u>

- (i) In December 2020, the local government provided a government subsidy of approximately RMB4.4 million to the Group to partially compensate the rental refund the Group provided to its tenants.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2020 RMB'000	2019 <i>RMB'000</i>
Interest expenses	4,120	3,696
Less: Interest expenses capitalised into an investment property under development	<u>(4,120)</u>	<u>(2,043)</u>
	<u>–</u>	<u>1,653</u>

The borrowing costs have been capitalised at a rate of 5.6% per annum during the year ended 31 December 2020 (2019: 5.3%).

(b) Staff costs

	2020 RMB'000	2019 <i>RMB'000</i>
Salaries, wages and other benefits	1,864	1,829
Contributions to PRC local retirement schemes	<u>249</u>	<u>413</u>
	<u>2,113</u>	<u>2,242</u>
Included in:		
Cost of sales	899	1,157
Administrative expenses	<u>1,214</u>	<u>1,085</u>
	<u>2,113</u>	<u>2,242</u>

Employees of the Group are required to participate in a defined contribution scheme administered and operated by the local municipal government. The Group contributes funds which are calculated on certain percentages of the employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group has no other material obligation for the payment of retirement benefits associated with these schemes beyond the annual contributions as described above.

(c) Other items

	2020 RMB'000	2019 <i>RMB'000</i>
Depreciation and amortisation	<u>1,263</u>	<u>1,296</u>
Auditor's remuneration	<u>950</u>	<u>200</u>

During the year ended 31 December 2020, lease cost arising from short-term leases that have lease term of 12 months or less amounted to RMB340,000 (2019: RMB nil).

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current tax		
PRC Corporate Income Tax	<u>6,133</u>	<u>6,258</u>
Deferred tax		
Origination and reversal of temporary differences	<u>3,230</u>	<u>4,569</u>
	<u>9,363</u>	<u>10,827</u>

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
<i>Note</i>		
Profit before taxation	37,444	43,274
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	(i) 9,361	10,819
Tax effect of non-deductible expenses	<u>2</u>	<u>8</u>
Actual tax expense	<u>9,363</u>	<u>10,827</u>

(i) The Company and its subsidiaries in the PRC are subject to PRC statutory income tax at 25%.

7 DIVIDENDS

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year	<u>3,000</u>	<u>—</u>
	<u>3,000</u>	<u>—</u>

Dividends of RMB3,000,000 were declared and approved by the Company in respect of the year ended 31 December 2019 to the equity shareholders of the Company during the year ended 31 December 2020.

The Directors consider that the dividends declared and approved during the year are not indicative of the future dividend policy of the Group.

8 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year of RMB28,081,000 (2019: RMB32,447,000) and the weighted average of 60,109,589 ordinary shares in issue (2019: 60,000,000 shares) during the year, calculated as follows:

Weighted average number of ordinary shares

	2020	2019
Issued ordinary shares at 1 January	60,000,000	60,000,000
Effect of shares issued in the Company's initial public offerings	<u>109,589</u>	<u>—</u>
Weighted average number of ordinary shares at 31 December	<u>60,109,589</u>	<u>60,000,000</u>

The Company did not have any potential ordinary shares outstanding during the year. Diluted earnings per share is equal to basic earnings per share.

9 INVESTMENT PROPERTIES

	Completed investment property RMB'000	Investment property under development RMB'000	Total RMB'000
At 1 January 2019	840,000	—	840,000
Additions	1,743	84,470	86,213
Fair value adjustments	<u>10,257</u>	<u>530</u>	<u>10,787</u>
At 31 December 2019 and 1 January 2020	852,000	85,000	937,000
Additions	957	86,176	87,133
Fair value adjustments	<u>(1,957)</u>	<u>5,164</u>	<u>3,207</u>
At 31 December 2020	<u>851,000</u>	<u>176,340</u>	<u>1,027,340</u>

Fair value adjustments of investment properties are recognised in the line item "Valuation gains on investment properties" on the consolidated statement of profit or loss and other comprehensive income.

The Group pledged a completed investment property with a carrying value of RMB851,000,000 (2019: RMB852,000,000) as at 31 December 2020 for two banking facilities amounting to RMB233,000,000 and RMB100,000,000 from two banks, respectively. In addition, the Group pledged an investment property under development with a carrying value of RMB176,340,000 as at 31 December 2020 for a banking facility amounting to RMB100,000,000 from a bank.

All of the Group's investment properties were revalued as at 31 December 2020. The valuations were carried out by an independent firm of valuers in Hong Kong, Colliers International, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's directors and the financial manager have discussion with the valuers on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting period.

10 BANK LOANS

As at 31 December 2020, the bank loans were repayable as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 1 year	40,462	57,020
After 1 year but within 2 years	40,000	—
Total non-current bank loans	40,000	—
	<u>80,462</u>	<u>57,020</u>

As at 31 December 2020, the bank loans were secured as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Bank loans		
– secured	<u>80,462</u>	<u>57,020</u>

Note:

- (i) In November 2018, the Company obtained a banking facility of RMB233,000,000 valid from 28 November 2018 to 28 November 2023 from a third-party bank, which was pledged by a completed investment property with a carrying value of RMB851,000,000 as of 31 December 2020. The drawdown of the credit facility is subject to the terms and conditions of the agreement. As of 31 December 2020, the Group had an outstanding loan of RMB28,462,000 under this banking facility with an effective interest rate of 5.4% per annum. The loan principal and related interest in the aggregate amount of RMB30,000,000 were due and repaid on 9 March 2021.

- (ii) In January 2019, the Company obtained a banking facility of RMB100,000,000 valid from 3 January 2019 to 1 January 2024 from a third-party bank, which was secondarily pledged by the same investment property as described in note (i) above. The drawdown of the credit facility is subject to the terms and conditions of the agreement. As of 31 December 2020, the Group had an outstanding loan of RMB40,000,000 under this banking facility with an effective interest rate of 5.5% per annum. The loan is due for repayment on 1 June 2022.
- (iii) In August 2020, the Group obtained a banking facility of RMB100,000,000 valid from 17 August 2020 to 28 December 2021 from a third-party bank, which was pledged by an investment property under development with a carrying value of RMB176,340,000 as of 31 December 2020 and was guaranteed by the Company. The drawdown of the credit facility is subject to the terms and conditions of the agreement. As of 31 December 2020, the Group had an outstanding loan of RMB12,000,000 under this banking facility with an effective interest rate of 4.3% per annum. The loan is specially for the construction of investment property under development and due for repayment on 10 November 2021.

11 COMMITMENTS

Capital commitments outstanding at 31 December 2020 not provided for in the financial statements were as follows:

	2020 RMB'000	2019 <i>RMB'000</i>
Authorised but not contracted for	132,687	133,814
Contracted for	92,912	181,030
	<u>225,599</u>	<u>314,844</u>

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Measuring and cutting tools refer to those tools or products which are used in the machine manufacturing process for measuring and cutting or as auxiliaries for measuring and cutting. They mainly include measuring tools, cutting tools, and other tools. For the purpose of improving production efficiency and reducing the probability of systematic error, high-quality measuring and cutting functioning are important for manufacturing process.

According to Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. (“F&S”), China has introduced a number of policies facilitating the manufacturing industry in recent years. Machine tools industry is the foundation of industrial manufacturing. As the key components for machine tools, the manufacturing and cutting tools manufacturing industry has been benefited from the prosperity of the manufacturing industry which in turn has driven the development of measuring and cutting tools trading centre as the same provides a centralised place for the trading of measuring and cutting tools. In particular, according to The Thirteenth Five Year Plan of Intelligent manufacturing (2016–2020)* (《智能製造“十三五”發展規劃(2016–2020年)》), intelligent manufacturing will become a long-term plan and strategy. Traditional manufacturing will need to gradually transform into digital manufacturing. This policy which aims to expedite the process of intelligent manufacturing will, according to F&S, accelerate the upgrade or replacement of outdated manufacturing machine, in turn creating additional demand for the measuring and cutting tools of higher product quality. For example, traditional manufacturing market, such as aerospace which demands intelligent transformation, is expected to have increased demand of measuring and cutting tools products to develop high precision (Computerised Numerical Control) CNC machine tools industry and product replacement. In addition, emerging manufacturing market, such as industrial robots using new generation of information technology and intelligent manufacturing, will create additional demand of the machine tools and thus inspire the demand of the measuring and cutting tools. As a result of the increased demand of machine tools abovementioned, it is expected that the demands of the measuring and cutting tools will be boosted and the manufacturers in the measuring and cutting tools industry will be stimulated to offer larger production volumes and higher product quality of measuring and cutting tools.

As the leader of the measuring and cutting tools trading centre operator market in the PRC, the Group believe that we are well-positioned to benefit from intelligent manufacturing transformation stimulating our tenants to offer larger production volumes and improving product quality of their measuring and cutting tools in our Trading Centre (as defined below).

BUSINESS REVIEW

The Group is an established measuring and cutting tools trading centre operator in China. The Company was founded in 2003 and owns, operates and manages the four-storey trading centre located in Qianyangxia Village, Wenqiao Town, Wenling City, Zhejiang Province, the PRC* (中國浙江省溫嶺市溫嶠鎮前洋下村) (the “**Trading Centre**”), which is essentially for product displaying and trading purposes, such that it primarily targets to provide units for use as shops for the tenants to display, trade and promote their measuring and cutting tools products to their downstream customers. The principal activity and source of revenue of the Group were primarily derived from property leasing business through our operation of the Trading Centre for the measuring and cutting tools industry. The Group aims to expand such property leasing business in the measuring and cutting tools industry into the industrial park (the “**Industrial Park**”) on the land in Chenshan Village, Wenqiao Town, Wenling City, Zhejiang Province, the PRC* (中國浙江省溫嶺市溫嶠鎮琛山村) (the “**Land**”).

Trading Centre

Our Trading Centre is a four-storey commercial complex with basement with a total gross floor area (“**GFA**”) of approximately 74,204.7 sq.m., of which a total GFA of approximately 71,817.5 sq.m. is held for investment purpose and a total GFA of approximately 2,387.2 sq.m. is held for our own offices. The land use rights of the Trading Centre were granted for a term expiring on 15 November 2046 for commercial uses. As at 31 December 2020, the value of the Trading Centre was RMB851.0 million (2019: RMB852.0 million).

We lease the units on the first and the second floors to corporations and individuals selling measuring and cutting tools. We designate part of the third floor as the electronic business park to lease to the measuring and cutting tools e-commerce business operators. We use the fourth floor as our office, and the basement as the car park. We also provide property management service and support services, namely the index and the measuring and cutting tools financing service, to our tenants. As at 31 December 2019 and 2020, our Trading Centre had 611 and 610 tenants, respectively.

For the year ended 31 December 2020, 482 lease agreements expired, representing approximately 71.3% of the leased area of our Trading Centre. In light of such expiration, we held a public tender between 18 to 21 August 2020 for the purpose of inviting interested corporations and individuals to submit bids for renting the units (with lease agreements expiring in 2020) on the first and second floors in our Trading Centre (the “**2020 Public Tender**”) (excluding the units in Zone G on the second floor). As a results of the 2020 Public Tender, 344 units on the first floor, representing 99.7% of the total number of units on the first floor available for bidding and 159 units on the second floor, representing all of the units on the second floor available for bidding, have been successfully leased out during the 2020 Public Tender. In addition, with respect to the 37 units available for renewal in Zone G on the second floor, all of them have been successfully renewed. As a result of the 2020 Public Tender and the renewal of the units in Zone G on the second floor, we have achieved high occupancy rates of approximately 99.8% and 100.0% for the first floor and the second floor, respectively.

The tenancy agreements with respect to the 503 units leased out from the 2020 Public Tender and 37 units renewed in Zone G on the second floor are under substantially the same terms as their original expiring tenancy agreements. Generally the rental rate was increased due to the Group is able to maintain stable and high occupancy rates of the Trading Centre and there is a strong demand on the units of our Trading Centre.

The following table sets forth the information regarding the average monthly effective rent per square meter for the leased area in the Trading Centre for the years.

	For the year ended 31 December	
	2020	2019
	Average	Average
	monthly	monthly
	effective rent	effective rent
	(in RMB per	(in RMB per
	sq.m.)	sq.m.)
First floor	341.1	414.0
Second floor	95.9	120.5
Third floor	20.7	28.4
Basement	14.3	14.3

Note:

- (1) Average monthly effective rent is calculated by total rental income dividend by the weighted average leased leaseable gross floor area (“LFA”) during the years indicated.
- (2) Excluding the 35-day rental refund to our tenants due to the Epidemic, the average monthly effective rent per sq.m. of the first floor, the second floor, the third floor and the basement for the year ended 31 December 2020 were approximately RMB376.7, RMB132.7, RMB28.4 and RMB14.3, respectively.

For the year ended 31 December 2020, the LFA of the Trading Centre and the percentage of LFA leased to our tenants are 25,931.3 sq.m. and 99.4%, respectively (2019: 24,699.0 sq. m. and 98.5%). LFA leased is calculated as the percentage of LFA retained and leased to our tenants comparing to the LFA for each of the years.

Industrial Park

According to the F&S Report, the measuring and cutting tools industry is in demand of an industrial park, primarily because (1) there is a strong governmental support to develop a measuring and cutting tools industrial park; and (2) the existing measuring and cutting tools industrial park in Wenling City, Zhejiang Province, the PRC is immaturely developed.

Considering the above and leveraging our experience, knowledge and network through years of being an active market player in the measuring and cutting tools industry, our Directors believe that the development of the Industrial Park is an excellent opportunity to expand our business and capitalising our market positioning in the measuring and cutting tools industry.

In December 2018, we successfully won the bid for the Land at the bid price of RMB63.5 million for the construction of the Industrial Park. The land use rights of the Industrial Park were granted for a term expiring on 27 January 2069 for industrial uses. We estimate that the floor area of the Industrial Park shall be approximately 111,000 sq.m. and total investment cost shall be approximately RMB405.9 million including acquisition of the Land, into the Industrial Park. The construction work have been commenced in February 2020 and expected to be completed by the end of 2021. As at 31 December 2020, the Group have incurred RMB170.6 million (2019: RMB84.5 million) for the acquisition of the Land and construction works.

The Industrial Park is mainly for manufacturing purpose that it targets to provide units for use as factories and workshops, where upstream manufacturers would conduct manufacturing and production of measuring and cutting tools (as compared with our Trading Centre where tenants therein primarily use the units as shops to conduct product display, trading and promotion). It is expected that the size of the manufacturing units in the contemplated Industrial Park is comparatively large, ranging from approximately 500 sq.m. to 2,000 sq.m. or larger. In addition, we expect to facilitate financing service as well as professional support to the tenants' manufacturing business.

OUTLOOK

We intend to maintain and further strengthen our position in the measuring and cutting tools industry and to expand our business by implementing the following business strategies:

- further strengthening our market position in the measuring and cutting tools market in the PRC;
- further development of the third floor of the Trading Centre;
- transforming into an internet-enabled trading centre;
- further strengthening our recognition; and
- development of the measuring and cutting tools industrial park.

FINANCIAL REVIEW

Revenue

Total revenue decreased by approximately 6.8% from approximately RMB50.2 million for the year ended 31 December 2019 to approximately RMB46.7 million for the year ended 31 December 2020, mainly because the Group provided a one-off 35-day rental refund of approximately RMB4.5 million to our tenants in order to take up social responsibilities as well as respond to government's recommendation to help enterprises resume businesses and production due to the Epidemic. After excluding such rental refund, our revenue was approximately RMB51.2 million which was relatively stable as compared with the same of approximately RMB50.2 million for the year ended 31 December 2019.

Cost of Sales

Cost of sales was approximately RMB9.3 million and RMB9.1 million for the years ended 31 December 2019 and 2020, respectively, which was relatively stable.

Gross Profit and Gross Profit Margin

Gross profit decreased by approximately 8.0% from approximately RMB40.9 million for the year ended 31 December 2019 to approximately RMB37.6 million for the year ended 31 December 2020, mainly because of the decrease of our revenue resulted from the one-off 35-day rental refund of approximately RMB4.5 million as mentioned above. As such, gross profit margin decreased from approximately 81.5% for the year ended 31 December 2019 to approximately 80.5% for the year ended 31 December 2020.

Valuation Gains on Investment Properties

The valuation gains on our investment properties decreased from approximately RMB10.8 million for the year ended 31 December 2019 to approximately RMB3.2 million for the year ended 31 December 2020 mainly because of the decrease of fair value of the Trading Centre as at 31 December 2020 primarily due to the shortening of the land use rights term during the year.

Other Net Income

Other net income increased by approximately RMB4.3 million from approximately RMB0.6 million for the year ended 31 December 2019 to approximately RMB4.9 million for the year ended 31 December 2020, primarily due to government subsidies of approximately RMB4.4 million in relation to compensation of the rental refund provided by the Group to the tenants for the year ended 31 December 2020 due to the Epidemic while no such income was incurred for the year ended 31 December 2019.

Administrative Expenses

Administrative expenses increased by approximately 12.9% from approximately RMB7.2 million for the year ended 31 December 2019 to approximately RMB8.2 million for the year ended 31 December 2020, primarily due to an increase in professional fees as we become a public company.

Income Tax Expenses

Income tax expenses decreased by approximately 13.5% from approximately RMB10.8 million for the year ended 31 December 2019 to approximately RMB9.4 million for the year ended 31 December 2020, primarily due to a decrease in deferred taxation arising from increase in valuation gains on our investment properties. The effective tax rate remained stable at 25.0% and 25.0% for the years ended 31 December 2019 and 2020, respectively.

Profit for the Year and Net Profit Margin

Profit for the year decreased by approximately 13.5% from approximately RMB32.4 million for the year ended 31 December 2019 to approximately RMB28.1 million for the year ended 31 December 2020, mainly due to the decrease in valuation gains on investment properties. As a result, our net profit margin decreased from approximately 64.7% for the year ended 31 December 2019 to approximately 60.1% for the year ended 31 December 2020.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's operations are primarily financed by cash generated from operating activities, the proceeds of capital contributions from our shareholders, the net proceeds received from the global offering of the Company completed on 30 December 2020 (the “**Global Offering**”) and the bank borrowings. As of 31 December 2020 and 2019, the Group had cash and cash equivalents of RMB85.4 million and RMB35.4 million, respectively.

Funding and Treasury Policy

The Group monitors its cash flows and cash balance on a regular basis and seek to maintain optimal level of liquidity that can meet the working capital needs while supporting a healthy level of business and its various growth strategies. In the future, the Group will continue relying on cash flows from operation and other debt and equity financing to fund our working capital needs and finance part of our business expansion.

Bank Loans and Charge on Assets

As at 31 December 2020, the Group's total bank loans amounted to approximately RMB80.5 million (2019: RMB57.0 million) which were pledged by the certain investment properties with a carrying amount of approximately RMB1,027.3 million (2019: RMB852.0 million).

All bank loans as at 31 December 2020 were denominated in RMB at fixed interest rate from 4.3% to 5.5% per annum (2019: 5.4% per annum). The following table sets forth the amount of indebtedness of the Group as at the date indicated:

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Repayment Schedule		
Bank loans		
Within 1 year	40,462	57,020
After 1 year but within 2 years	<u>40,000</u>	<u>–</u>
Total borrowings	<u><u>80,462</u></u>	<u><u>57,020</u></u>

Gearing Ratio

The gearing ratio increased from 8.9% as at 31 December 2019 to 11.3% as at 31 December 2020, such increase was a result of an increase in bank loans of approximately RMB23.5 million.

Gearing ratio equals total debt divided by total equity as at the end of the year. Total debt includes all interest-bearing bank loans.

Capital Expenditure

For the year ended 31 December 2020, the capital expenditure was approximately RMB76.4 million (2019: approximately RMB66.1 million). The capital expenditure incurred for the year ended 31 December 2020 primarily related to construction of our investment property.

Capital Commitments

As at 31 December 2020, the capital commitments of the Group in respect of property, plant and equipment and land use rights contracted amounted for approximately RMB225.6 million (2019: approximately RMB314.8 million).

Contingent Liabilities

As at 31 December 2020, the Group did not have any material contingent liabilities or guarantees (2019: Nil).

SIGNIFICANT INVESTMENTS HELD, AND MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no significant investments held or material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2020.

EMPLOYEE AND REMUNERATION POLICIES

As of 31 December 2020, the Group had total of 28 employees (2019: 27 employees). For the year ended 31 December 2020, the Group has incurred a total staff costs of approximately RMB2.1 million (2019: RMB2.2 million), representing a decrease of approximately 5.8% as compared with those for the year ended 31 December 2019, which was a result of exemption of the social insurance granted by the government under the Epidemic.

The Group believe that our employees are one of our most valuable assets and have greatly contributed to our success. The Group provide training to our employees to enhance their business efficiency and conduct yearly reviews of their performance. We believe that these initiatives have contributed to stronger work incentive among our employees. In addition, the salaries of our employees are mainly determined with reference to their seniority and performance, and the total compensation includes salaries, performance-based bonuses and special awards.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Company was listed on the Main Board of the Stock Exchange on 30 December 2020. The net proceeds from the Company's issue in a total of 20,000,000 new H Shares in the Global Offering amounted to approximately HK\$61.9 million (after deducting underwriting commissions and related Listing expenses which equivalent to approximately RMB52.1 million) with the final offer price of HK\$6.25 per H Share. For the period from the Listing Date to 31 December 2020, the Company has not utilised any net proceeds from the Global Offering. The Company intends to use the net proceeds in the same manner and proportion as set out in the section headed "Future Plans and Use of Proceeds" contained in the prospectus of the Company dated 11 December 2020. For details of the breakdown of the use of proceeds, please refer to the 2020 annual report of the Company to be published in due course.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

From the Listing Date to 31 December 2020, there was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company.

DIRECTORS' AND SUPERVISORS' COMPETING INTERESTS

None of the controlling shareholders, Directors and supervisors and their respective close associates has any interests in any business which directly or indirectly competes or is likely to compete with the Group's business.

The Board comprises two executive Directors, four non-executive Directors and three independent non-executive Directors. The Board has adopted the code provisions (the “**Code Provisions**”) of the Corporate Governance Code (the “**CG Code**”) set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). From the Listing Date to 31 December 2020, the Company has fully complied with the Code Provisions.

The Company strictly complied with the CG Code. The Directors will review the corporate governance policies and compliance with the CG Code each financial year.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding Directors' and Supervisors' securities transactions. Upon specific enquiries, all Directors and Supervisors' confirmed that they have complied with the relevant provisions of the Model Code from the Listing Date to 31 December 2020 and up to the date of this announcement.

EVENT AFTER THE REPORTING PERIOD

Save as disclosed in this announcement, there are no major subsequent events to 31 December 2020 which would materially affect the Group's operating and financial performance as of the date of this announcement.

FINAL DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the year ended 31 December 2020.

The Company is not aware of any arrangement under which a Shareholder has waived or agreed to waived or agreed to waive any dividends.

SCOPE OF WORK OF KPMG

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

PUBLICATION OF THE CONSOLIDATED ANNUAL RESULTS AND 2020 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (<http://www.cnglj.com>) and the 2020 Annual Report containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

ANNUAL GENERAL MEETING

The annual general meeting of the Company ("AGM") will be held on 20 May 2021. Shareholders should refer to details regarding the AGM in the circular of the Company, the notice of AGM and form of proxy accompanying thereto to be despatched by the Company.

CLOSURE OF REGISTER OF MEMBERS

For determining the holders of H Shares who will be entitled to attend and vote at the AGM to be held on 20 May 2021, the register of members of the Company will be closed from 20 April 2021 to 20 May 2021, both days inclusive, during which period no transfer of H shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all transfer of H shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's H Share Registrar in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 19 April 2021, being the business day before the first day of closure of the register of members.

AUDIT COMMITTEE

The audit committee of the Company has reviewed together with the management and external auditor of the Company about the accounting principles and policies adopted by the Group and discussed the internal control and financial reporting matters including a review of the annual results of the Group for the year ended 31 December 2020.

CHANGE OF PRINCIPAL PLACE OF BUSINESS IN HONG KONG

The Board hereby announces that the Company's principal place of business in Hong Kong has been changed to 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong with effect from 24 March 2021.

By order of the Board
**Wenling Zhejiang Measuring and
Cutting Tools Trading Centre Company Limited***
HUANG Qun
Chairman

Wenling City, the PRC, 24 March 2021

As at the date of this announcement, the Board comprises Mr. Pan Haihong and Mr. Zhou Guilin as executive Directors; Mr. Huang Qun, Mr. Wang Wenming, Mr. Cheng Jinyun and Mr. Ye Yunzhi as non-executive Directors; and Mr. Xu Wei, Mr. Jin Hongqing and Mr. Tsoi Ka Shing as independent non-executive Directors.

* For identification purpose only