China Wood Optimization (Holding) Limited
中國優材(控股)有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1885)

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020 AND FURTHER DELAY IN PUBLICATION OF THE 2020 ANNUAL RESULTS AND DELAY IN DESPATCH OF THE 2020 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2020, operating results of the Group were as follows:

– Revenue reached about RMB44.2 million (2019: RMB211.7 million), representing a decrease of about 79.1% from last year;

– Loss for the year amounted to about RMB382.9 million (2019: profit of RMB70.1 million), representing a decrease of about 646.2% from last year;

– Basic and diluted loss per share for the year based on weighted average number of ordinary shares of 950,900,000 shares (2019: 976,151,000 shares) in issue was RMB40.3 cents (2019: earnings per share of RMB7.2 cents); and

– The Directors of the Company (the "**Directors**") do not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: HK$0.02 per ordinary share, it was not passed in the annual general meeting of the Company held on 20 May 2020).

UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

The board (the "**Board**") of Directors (the "**Directors**") of China Wood Optimization (Holding) Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**") is pleased to announce the unaudited consolidated results of the Group for the year ended 31 December 2020 together with the comparative figures for the preceding financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2020
*(Expressed in Renminbi ("**RMB**"))*

	Note	**2020** **RMB'000** ***(unaudited)***	2019 RMB'000
Revenue	*3*	**44,219**	211,655
Cost of sales		**(18,992)**	(73,298)
Gross profit	*3(b)*	**25,227**	138,357
Other income		**27,665**	26,017
Selling expenses		**(23,171)**	(4,834)
Administrative expenses		**(54,278)**	(63,556)
Impairment loss on property, plant and equipment		**(30,000)**	–
Impairment loss on financial assets		**(258,453)**	(4,009)
Write down of inventories		**(58,000)**	–
(Loss)/profit from operations		**(371,010)**	91,975
Finance costs		**(2,880)**	(3,317)
(Loss)/profit before taxation		**(373,890)**	88,658
Income tax	*4*	**(9,020)**	(18,567)
(Loss)/profit attributable to equity shareholders of the Company for the year		**(382,910)**	70,091
(Loss)/earnings per share			
– Basic and diluted (RMB)	*5*	**(0.403)**	0.072

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2020

(Expressed in RMB)

	2020 RMB'000 *(unaudited)*	2019 RMB'000
(Loss)/profit for the year	**(382,910)**	70,091
Other comprehensive income for the year (after tax):		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements into presentation currency	**(212)**	437
Total comprehensive income attributable to equity shareholders of the Company for the year	**(383,122)**	70,528

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2020
(Expressed in RMB)

	Note	2020 RMB'000 (unaudited)	2019 RMB'000
Non-current assets			
Property, plant and equipment		**122,742**	162,460
Right-of-use assets		**51,328**	53,319
Investment properties		**57,468**	72,523
Deferred tax assets	*8(b)*	**–**	8,969
		231,538	297,271
Current assets			
Inventories		**13,446**	41,011
Trade receivables	*6*	**24,478**	127,226
Prepayments, deposits and other receivables		**61,964**	86,588
Prepaid income tax	*8(a)*	**3,027**	2,302
Cash and cash equivalents		**37,909**	205,111
		140,824	462,238
Current liabilities			
Trade payables	*7*	**–**	1,826
Receipts in advance		**2,392**	1,214
Accrued expenses and other payables		**10,024**	14,540
Bank loans		**51,360**	50,000
Lease liabilities		**780**	831
Income tax payable	*8(a)*	**–**	3,391
		64,556	71,802
Net current assets		**76,268**	390,436
Total assets less current liabilities		**307,806**	687,707

	Note	**2020**	2019
		RMB'000	RMB'000
		(unaudited)	
Non-current liabilities			
Bank loans		**6,640**	–
Lease liabilities		**251**	1,042
Deferred income		**22,951**	25,479
Deferred tax liabilities	*8(b)*	**3,700**	3,800
		33,542	30,321
NET ASSETS		**274,264**	657,386
CAPITAL AND RESERVES	*9*		
Share capital		**7,921**	7,921
Reserves		**266,343**	649,465
TOTAL EQUITY		**274,264**	657,386

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

1 Corporate information

The Company was incorporated in the Cayman Islands on 6 June 2012 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time. The principal activities of the Group are sale of wooden products and rendering of Wood Processing Procedure Service.

2 Significant accounting policies

(a) Statement of compliance

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

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

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

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

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

(c) Changes in accounting policies

The 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 IFRS 16, *Covid-19-Related Rent Concessions*

Other than the amendment to IFRS 16, 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 IFRSs are discussed below:

Amendments to IFRS 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.

Amendment to IFRS 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.

None of these amendments 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 financial statements.

3 Revenue and segment reporting

(a) Disaggregation of revenue

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

	2020	2019
	RMB'000	RMB'000
	(unaudited)	
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products or service lines		
– Sales of Processed Wood Panels	**10,831**	30,921
– Rendering of Wood Processing Procedure Service	**33,388**	180,734
	44,219	211,655

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

The Group's customer base is diversified and includes one customer group and two customers with whom transactions have exceeded 10% of the Group's revenue for the year ended 31 December 2020 (2019: one customer group and one customer). In 2020, revenue from these customers, amounted to approximately RMB31,814,000 (2019: RMB157,650,000).

(b) Segment reporting

The Group manages its businesses by products and services. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

- Rendering of Wood Processing Procedure Service: this segment processes the raw wood panels of the customers in accordance with the customers' requirement.

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

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the years ended 31 December 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 and selling and administrative expenses, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income and interest expenses is presented.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2020 and 2019 is set out below.

		2020	
	Sales of Processed Wood Panels	**Rendering of Wood Processing Procedure Service**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
	(unaudited)	***(unaudited)***	***(unaudited)***
Revenue from external customers recognised at a point in time	**10,831**	**33,388**	**44,219**
Reportable segment gross profit	**2,613**	**22,614**	**25,227**

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

(ii) ***Geographic information***

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

4 Income tax

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

	2020 RMB'000 *(unaudited)*	2019 RMB'000
Current tax *(Note 8(a))*:		
– Provision for the year	**151**	20,141
Deferred tax *(Note 8(b))*:		
– Origination and reversal of temporary differences	**8,969**	(5,374)
– Withholding tax in connection with the retained profits to be distributed by subsidiaries of the Group	**(100)**	3,800
	8,869	(1,574)
	9,020	18,567

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

	2020	2019
	RMB'000	RMB'000
	(unaudited)	
(Loss)/profit before taxation	**(373,890)**	88,658
Expected tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned *(Notes (i), (ii) and (iii))*	**(92,907)**	22,800
Tax effect of non-deductible expenses	**5,055**	1,429
Tax concessions *(Note (iv))*	**(1,644)**	(11,462)
Withholding tax in connection with the retained profits distributed or to be distributed by subsidiaries of the Group *(Note (v))*	**–**	5,800
Tax effect of unused tax losses	**89,547**	–
Reversal of deferred income tax assets recognised in previous years	**8,969**	–
Actual tax expense	**9,020**	18,567

Notes:

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

(ii) The Company and the subsidiaries of the Group incorporated in the British Virgin Islands and Hong Kong, respectively, are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2020 (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 year ended 31 December 2020 (2019: RMBNil).

(iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to the PRC Corporate Income Tax rate of 25% for the year ended 31 December 2020 (2019: 25%).

(iv) 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 2022 (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 2021 to 2023, 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 year ended 31 December 2020 (2019: 15%). In addition, these subsidiaries are also entitled to an additional tax deductible allowance calculated at 75% (2019: 75%) of the qualified research and development costs incurred by these subsidiaries.

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

Excluding the above RMB76,000,000, the rest taxable temporary differences relating to the undistributed retained profits of the subsidiaries of the Group established in the PRC amounted to RMBNil at 31 December 2020 (2019:RMB245,937,000), where deferred tax liabilities in respect of the PRC withholding tax that would be payable on the distributions of these profits have not been recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

5 Basic and diluted (loss)/earnings per share

(a) Basic (loss)/earnings per share

The basic loss per share for the year ended 31 December 2020 is calculated based on the loss attributable to the equity shareholders of the Company of RMB382,910,000 (2019: profit attributable to the equity shareholders of the Company of RMB70,091,000) and the weighted average of 950,900,000 ordinary shares (2019: 976,151,000 ordinary shares) in issue during the year, calculated as follows:

	2020	2019
	RMB'000	RMB'000
	(unaudited)	
Issued ordinary shares at 1 January	**950,900**	1,000,000
Effect of shares purchased under the share award plan	**–**	(23,849)
Weighted average number of ordinary shares at 31 December	**950,900**	976,151

(b) Diluted (loss)/earnings per share

There was no difference between basic and diluted (loss)/earnings per share as the Company did not have any dilutive potential shares outstanding during the years ended 31 December 2020 and 2019.

6 Trade receivables

	2020	2019
	RMB'000	RMB'000
	(unaudited)	
Trade receivables from third parties, net of loss allowance	**24,478**	127,226

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

Cash before delivery is generally required for all customers, where a credit period of 30 to 60 days may be granted to customers, depending on credit assessment carried out by management on an individual customer basis.

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

	2020	2019
	RMB'000	RMB'000
	(unaudited)	
Aged within 1 month	**177**	33,500
Aged from 1 to 3 months	**623**	63,500
Aged from 3 to 6 months	**23,678**	30,226
	24,478	127,226

7 Trade payables

	2020	2019
	RMB'000	RMB'000
	(unaudited)	
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:

	2020	2019
	RMB'000	RMB'000
	(unaudited)	
Due within 1 month or on demand	**–**	1,826

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

8 Income tax in the consolidated statement of financial position

(a) Current taxation in the consolidated statement of financial position represents

	2020	2019
	RMB'000	RMB'000
	(unaudited)	
Income tax payable at 1 January	**1,089**	1,778
Provision for income tax on the estimated taxable profits for the year *(Note 4(a))*	**151**	20,141
Income tax paid during the year	**(4,267)**	(20,830)
(Prepaid income tax)/income tax payable at 31 December	**(3,027)**	1,089
Representing:		
Prepaid income tax	**(3,027)**	(2,302)
Income tax payable	**–**	3,391
	(3,027)	1,089

(b) Deferred tax assets and liabilities recognised:

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

Deferred tax arising from:	**Assets-accrued expenses and government grants and related amortisation**	**Assets – unused tax losses**	**Assets – impairment losses**	**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**	**Liabilities - retained profits to be distributed**	**Net**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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 *(Note 4(a))*	(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 4(a))*	(4,198)	(3,944)	(834)	7	100	(8,869)
At 31 December 2020	**–**	**–**	**–**	**–**	**(3,700)**	**(3,700)**

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

	2020	2019
	RMB'000	RMB'000
	(unaudited)	
Deferred tax assets recognised in the consolidated statement of financial position	**–**	8,969
Deferred tax liabilities recognised in the consolidated statement of financial position	**(3,700)**	(3,800)
	(3,700)	5,169

(d) Deferred tax liabilities not recognised

As disclosed in Note 4(b)(v), at 31 December 2020 taxable temporary differences relating to the undistributed profits of the subsidiaries of the Group established in the PRC amounted to RMBNil (2019: RMB245,937,000), where deferred tax liabilities in respect of the PRC withholding tax that would be payable on the distributions of these profits, have not been recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

9 Capital, reserves and dividends

(a) Dividends

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

	2020	2019
	RMB'000	RMB'000
	(unaudited)	
Final dividend proposed after the end of the reporting period of HK$Nil per ordinary share (2019: HK$0.02 per ordinary share)	**–**	17,036

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 for dividend distribution was not approved by the shareholders of the Company at the annual general meeting on 20 May 2020, the final dividend was not paid.

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

	2020	2019
	RMB'000	RMB'000
	(unaudited)	
Final dividend proposed in respect of the previous financial year, approved and paid during the year, of HK$Nil per ordinary share (2019: HK$0.02 per ordinary share)	**–**	17,283

(b) Share capital

(i) Issued share capital

	2020		2019	
	No. of shares	**RMB'000**	No. of shares	RMB'000
	(unaudited)	***(unaudited)***		
Ordinary shares, issued and fully paid:				
At 1 January and at 31 December	**1,000,000,000**	**7,921**	1,000,000,000	7,921

MANAGEMENT DISCUSSIONS AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 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 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 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. At the beginning, 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. In addition, through the continuous efforts of the Group's research and development department over the past few years, the Group's impregnation fluid can now be used to process different tree species and not just poplars.

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 revenue for the financial year ended 31 December 2020.

In 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 RMB167.5 million or 79.1% for the financial year ended 31 December 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 both domestic and overseas 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.

Impairment Loss On Financial Assets

In 2020, the Group faced a severe operating environment due to the adverse impact of the Pandemic. Since solid wood furniture was not a necessity, domestic retail customers were more cautious about their consumption, resulting in a sharp decline in sales of the Group's local downstream solid wood furniture manufacturers. Due to inventory backlog and substantially decreased in revenue, the Group's downstream manufacturers had prolonged their debt repayment.

On the other hand, certain customers of the Group located in Guangdong Province are export-oriented solid wood furniture manufacturers, the outbreak of the Pandemic in Europe and the United States of America in the second quarter of 2020, together with the adverse impact of the Sino-US trade war and the freight charges soared since the second half of 2020 deal a blow to their overseas business thereby leading to the prolonged trade debt repayments from these export-oriented manufacturers. As at 31 December 2020, the Group's trade receivables, before net of loss allowance, amounted to about RMB156.2 million, which increased by about RMB25.0 million or 19.0% 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 ageing of trade receivables mostly overdue more than one year, the Group made a provision for impairment loss on trade receivables of about RMB131.8 million as at 31 December 2020 (31 December 2019: RMB4.0 million).

Furthermore, in order to reduce the reliance on revenue derived from export-oriented manufacturers and to return back to domestic market under the environment of the internal economic circulation advocated by the PRC government, the Group strengthened its cooperation with its upstream suppliers and downstream 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. To enhance their motivations to support the Group's new business plan, the Group made prepayments to its suppliers to purchase poplar wood panels and provided short-terms loans to its downstream manufacturers which established several Salicaceae product exhibition halls in Hebei and Jiangsu Provinces to display solid wood furniture products made with Salicaceae and to produce solid wood furniture inventories ready for sale.

However, the recovery in the solid wood furniture market was slower than the Group's expectation. Retail consumers have become more cautious about buying non-essential consumer products due to the Pandemic. As a result, the Group's plan to promote domestic sales of solid wood furniture made with Salicaceae was severely hit, resulting in difficulties in the collection of prepayments to suppliers and short-term loans to downstream manufacturers. The Group has been negotiating with these suppliers and downstream manufacturers for debt repayment plans, however, they were unable to provide the concrete repayment plans due to their critical operation situation. As a result, the Group made provisions for impairment losses on prepayments and other receivables of about RMB54.0 million and RMB76.7 million respectively for the year ended 31 December 2020 (31 December 2019: RMBNil).

Write Down Of Inventories

On the other hand, due to long ageing, deficiency of production processes and the improper storage of the Group's inventory during the Pandemic, some of the inventories had cracked and mildewed and a provision for write down of inventories of about RMB58.0 million was made by the Group for the year ended 31 December 2020 (31 December 2019: RMBNil).

Impairment Loss On Property, Plant And Equipment

Furthermore, due to the operation losses of the Group's factories located in the PRC in 2020, the Group made a provision for impairment loss on certain unused plant and equipment of about RMB30.0 million for the year ended 31 December 2020 (31 December 2019: RMBNil).

As a result of the adverse impact of the Pandemic to the Group's operation as mentioned above, the Group recorded a net loss of about RMB382.9 million for the year ended 31 December 2020 as compared to a net profit of about RMB70.1 million for the year ended 31 December 2019.

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 PRC has been gradually accelerating even the Pandemic has not been completely eliminated. In order to better seize the opportunities of economic recovery, the Group has been in contact with other solid wood materials suppliers, such as pine wood, eucalyptus wood and birch wood suppliers and solid wood furniture manufacturers, hoping to expand the use of the Group's Wood Processing Procedure Services. In addition to the solid wood furniture market, the Group also tried to promote the use of pine wood panels processed by the Group for industrial use such as carriage flooring. All these moves are aimed to expand the source of revenue of the Group in the coming future.

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. On 25 March 2021, Jiangsu AMS entered into another supplemental loan agreement with Hebei Overseas pursuant to which Jiangsu AMS agree to extend the term of the Loan for another one year with effect from 17 February 2021 to up to 17 February 2022. For details of the provision of loan, please refer to the announcements of the Company dated 10 August 2018, 16 August 2019, 14 August, 19 August 2020 and 25 March 2021.

* *The English name is for identification purpose only*

FINANCIAL REVIEW

Revenue

The Group's revenue substantially decreased by about RMB167.5 million or 79.1% from about RMB211.7 million for the year ended 31 December 2019 to about RMB44.2 million for the year ended 31 December 2020. The substantial decrease in revenue was mainly attributable to weakened sales performance brought about by the Pandemic and the Sino-US trade war which also caused adverse impact to our export-oriented solid wood furniture manufacturers. 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. In addition, certain major customers of the Group located in Guangdong Province were export-oriented solid wood furniture manufacturers. The outbreak of the Pandemic in Europe and the United States of America in the second quarter of 2020 badly hit their overseas sales and resulted in the substantial decrease in the demand of the Group's products and services. 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:

	Year ended 31 December							
	2020				2019			
	Weight (Ton) *(Note 1)*	**Volume *(m^3)***	***RMB'000 (unaudited)***	***%***	Weight (Ton) *(Note 1)*	Volume *(m^3)*	*RMB'000*	*%*
Less-shaved Processed Wood Panels	**–**	**3,041**	**10,831**	**24.4**	–	9,130	30,921	14.6
Rendering of Wood Processing Procedure Service	**17,614**	**–**	**33,388**	**75.6**	93,268	–	180,734	85.4
	17,614	**3,041**	**44,219**	**100.0**	93,268	9,130	211,655	100.0

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

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

	Year ended 31 December	
	2020	2019
	RMB	RMB
Less-shaved Processed Wood Panels		
– average selling price per cubic meter	**3,562**	3,387
Rendering of Wood Processing Procedure Service		
– average selling price per ton consumed	**1,896**	1,938

Less-shaved Processed Wood Panels

Revenue from sales of less-shaved Processed Wood Panels substantially decreased by about RMB20.1 million, or 65.0% from about RMB30.9 million in 2019 to about RMB10.8 million in 2020. The substantial 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 substantially decreased by about 6,089m^3 from about 9,130m^3 for the year ended 31 December 2019 to about 3,041m^3 for the year ended 31 December 2020.

The average selling price of less-shaved Processed Wood Panels increased from about RMB3,387/m^3 for the year ended 31 December 2019 to about RMB3,562/m^3 for the year ended 31 December 2020. The increase was mainly attributable to the sales promotion of less-shaved Processed Wood Panels offered to the customers for celebrating the resumption of production of our factory located in Handan, Hebei Province (the "**Handan Factory**") in the second half of 2019 and the average selling price resumed to normal in 2020.

Rendering of Wood Processing Procedure Service

The Group's impregnation fluid and Wood Processing Procedure are its core technologies which are difficult to replicate in a short time. Through providing Wood Processing Procedure Service, the Group can reveal its intrinsic value and enjoy a higher gross profit margin from the service than that of less-shaved Processed Wood Panels. Therefore, the Group enhanced its effort to render Wood Processing Procedure Service to customers who can carry out purchase raw wood panels, and can choose to conduct the drying, shaving and cutting by themselves or elsewhere at a lower cost than the Group during the year ended 31 December 2020. The customers provide their raw wood panels to the Group and the Group charged an average processing fee of about RMB1,896 per ton of the impregnation fluid consumed during the Wood Processing Procedure for the year ended 31 December 2020, as compared to the average processing fee of about RMB1,938 per ton for the year ended 31 December 2019. The decrease in average processing fee was mainly due to the sales discount offered to customers due to the Pandemic. 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 RMB147.3 million or 81.5% from about RMB180.7 million for the year ended 31 December 2019 to about RMB33.4 million for the year ended 31 December 2020.

Cost of Sales

Cost of sales of the Group decreased by about RMB54.3 million or 74.1% from about RMB73.3 million for the year ended 31 December 2019 to about RMB19.0 million for the year ended 31 December 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 RMB113.2 million or 81.8% from about RMB138.4 million for the year ended 31 December 2019 to about RMB25.2 million for the year ended 31 December 2020. The substantial 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 year ended 31 December 2020 as discussed under the paragraph headed "Revenue" above.

GROSS PROFIT MARGIN BY SEGMENT

Analysis of gross profit margin by segment is as follows:

	Year ended 31 December	
	2020	2019
	%	*%*
Less-shaved Processed Wood Panels	**24.1**	21.1
Rendering of Wood Processing Procedure Service	**67.7**	72.9
Overall gross profit margin	**57.1**	65.4

Overall gross profit margin of the Group decreased from about 65.4% for the year ended 31 December 2019 to about 57.1% for the year ended 31 December 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 67.7% for the year ended 31 December 2020 than that of sales of less-shaved Processed Wood Panels of about 24.1% for the year ended 31 December 2020.

Less-shaved Processed Wood Panels

Gross profit margin of less-shaved Processed Wood Panels increased from about 21.1% for the year ended 31 December 2019 to about 24.1% for the year ended 31 December 2020. Such increase was mainly attributable to the increase in average selling price per cubic meter of less-shaved Processed Wood Panels from about RMB3,387/m^3 for the year ended 31 December 2019 to about RMB3,562/m^3 for the year ended 31 December 2020. The increase in average selling price was mainly due to the sales promotion of less-shaved Processed Wood Panels offered to the customers for celebrating the resumption of production of the Handan Factory in the second half of 2019 and the average selling price resumed to normal in 2020.

Rendering of Wood Processing Procedure Service

Gross profit margin of rendering of Wood Processing Procedure Service decreased from about 72.9% for the year ended 31 December 2019 to about 67.7% for the year ended 31 December 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 RMB1.7 million or 6.1% from about RMB26.0 million for the year ended 31 December 2019 to about RMB27.7 million for the year ended 31 December 2020. The increase was mainly due to the increase in rental income from operating leases. The rental income from operating leases increased by about RMB2.9 million from about RMB13.7 million for the year ended 31 December 2019 to about RMB16.6 million for the year ended 31 December 2020. The increase in rental income from operating leases was mainly due to the new lease of certain facilities and workshops of 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 RMB2.2 million for the year ended 31 December 2019. There was no such loss on disposal of property, plant and equipment recorded for the year ended 31 December 2020.

Selling Expenses

The Group's selling expenses increased significantly by about RMB18.4 million or 383.3% from about RMB4.8 million for the year ended 31 December 2019 to about RMB23.2 million for the year ended 31 December 2020. The increase in selling expenses was mainly due to the increase in advertising and promotion expenses for solid wood furniture made with the Group's processed wood panels named "Salicaceae"（莎麗格）since the Group would like to strengthen its cooperation with its upstream suppliers and solid wood furniture manufacturers focusing on the domestic consumer market and therefore provided short term loans to establish several exhibition halls in Hebei Province and Jiangsu Province to display their solid wood furniture made with Salicaceae.

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 RMB9.3 million or 14.6% from about RMB63.6 million for the year ended 31 December 2019 to about RMB54.3 million for the year ended 31 December 2020.

The depreciation and amortisation charges increased by about RMB2.8 million from about RMB16.5 million for the year ended 31 December 2019 to about RMB19.3 million for the year ended 31 December 2020. The increase was mainly due to some lease-out 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 research and development expenses and other tax expenses. The research and development expenses decreased by about RMB7.0 million from about RMB13.3 million for the year ended 31 December 2019 to about RMB6.3 million for the year ended 31 December 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 RMB2.7 million from about RMB6.5 million for the year ended 31 December 2019 to about RMB3.8 million for the year ended 31 December 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 year ended 31 December 2020.

Impairment Loss On Property, Plant and Equipment

Due to the operation losses of the Group's factories located in the PRC in 2020, the Group made a provision for impairment loss on certain unused plant and equipment of about RMB30.0 million for the year ended 31 December 2020 (31 December 2019: Nil).

Impairment Loss On Financial Assets

The impact of the Pandemic, the Sino-US trade war and the freight charges soared in 2020 badly hit both the domestic and overseas solid wood furniture markets. As a result, the Group's downstream solid wood furniture manufacturers had to prolong their debt repayment. In view of the ageing of trade receivables mostly overdue more than one year, the Directors were of the opinion that a provision for impairment loss on trade receivables of about RMB131.8 million (31 December 2019: RMB4.0 million) was necessary as at 31 December 2020. The net increase in provision for impairment loss amounted to RMB127.8 million for the year ended 31 December 2020 (31 December 2019: RMB4.0 million), due to larger balances and longer age of trade receivables of the Group as at 31 December 2020.

Furthermore, in order to reduce the reliance on revenue derived from export-oriented manufacturers and to return back to domestic market under the environment of the internal economic circulation advocated by the PRC government, the Group strengthened its cooperation with its upstream suppliers and downstream 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. To enhance their motivations to support the Group's new business plan, the Group made prepayments to its suppliers to purchase poplar wood panels and provided short-terms loans to its downstream manufacturers which established several Salicaceae product exhibition halls in Hebei and Jiangsu Provinces to display solid wood furniture products made with Salicaceae and to produce solid wood furniture stocks ready for sale.

However, the recovery in the solid wood furniture market was slower than the Group's expectation. Retail consumers have become more cautious about buying non-essential consumer products due to the Pandemic. As a result, the Group's plan to promote domestic sales of solid wood furniture made with Salicaceae was severely hit, resulting in difficulties in the collection of prepayments to suppliers and short-term loans to downstream manufacturers. The Group has been negotiating with these suppliers and downstream manufacturers for debt repayment plans, however, they were unable to provide the concrete repayment plans due to their critical operation situation. As a result, the Group made provisions for impairment losses on prepayments and other receivables of about RMB54.0 million and RMB76.7 million respectively for the year ended 31 December 2020 (31 December 2019: RMBNil).

Write Down Of Inventories

Due to long ageing, deficiency of production processes and the improper storage of the Group's inventories during the Pandemic, some of the Group's inventories had cracked and mildewed. As a result, a provision for write down of inventories of about RMB58.0 million was made by the Group for the year ended 31 December 2020 (31 December 2019: RMBNil).

Finance Costs

The Group's finance costs remained stable for the years ended 31 December 2020 and 2019 which was about RMB2.9 million and RMB3.3 million respectively.

Income Tax Expenses

The Group's income tax expenses decreased by about RMB9.6 million or 51.6% from about RMB18.6 million for the year ended 31 December 2019 to about RMB9.0 million for the year ended 31 December 2020. The decrease in income tax expenses was mainly due to the decrease in profits before taxation of a PRC subsidiary of the Group for the year ended 31 December 2020. In addition, a PRC Withholding Tax of RMB3.8 million was accrued during the year ended 31 December 2019 for a proposed distribution of RMB76.0 million out of the retained profits of a subsidiary of the Group incorporated in the PRC to its immediate holding company in 2019 and there was no such accrual for PRC Withholding Tax for the year ended 31 December 2020.

Loss for the Year

As a combined result of the factors discussed above, the Group recorded a net loss of about RMB382.9 million for the year ended 31 December 2020 as compared with a net profit of about RMB70.1 million for the year ended 31 December 2019. Such decrease was mainly due to the decrease in revenue, the increase in selling expenses and the increase in impairment loss on property, plant and equipment, impairment loss on financial assets and write down of inventories for the year ended 31 December 2020 which was partially offset by the increase in other income and the decreases in administrative expenses and income tax expenses.

LIQUIDITY AND FINANCIAL RESOURCES AND TREASURY POLICY

	As at 31 December	
	2020	2019
Current ratio	**2.18 times**	6.44 times
Gearing ratio*	**0.35 times**	0.15 times

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

The current ratio of the Group as at 31 December 2020 was about 2.18 times as compared to that of about 6.44 times as at 31 December 2019. The gearing ratio as at 31 December 2020 was about 0.35 times as compared to that of 0.15 times as at 31 December 2019. The substantial decrease in current ratio was mainly attributable to the substantial decrease in amount of current assets due to the provision for write down of inventories, provision for impairment loss on financial assets as a result of long ageing and the possibility of debt recovery.

The substantial increase in gearing ratio was mainly due to the provisions made as mentioned above and the provision for asset impairment losses on certain property, plant and equipment due to the loss of operations of the PRC subsidiaries of the Group in 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, 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 31 December 2020 (31 December 2019: Nil).

PLEDGE OF ASSETS

As at 31 December 2020, the Group's property, plant and equipment, investment properties and land use right with a carrying amount of about RMB106.4 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 in January 2020 and the guarantee to this customer was released at the same time.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

CAPITAL STRUCTURE

There has been no change in the capital structure of the Company for the year ended 31 December 2020. The capital of the Company only comprises of ordinary shares.

As at 31 December 2020, all the bank loans of the Group are denominated in RMB and are subject to fixed interest rate.

SIGNIFICANT INVESTMENTS

As at 31 December 2020, there was no significant investment held by the Group (31 December 2019: RMBNil).

FOREIGN CURRENCY EXPOSURE

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

EMPLOYEES AND EMOLUMENT POLICY

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

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

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

As at 31 December 2020, the Group employed 186 employees, the total staff costs amounted to about RMB17.0 million (2019: about RMB17.9 million). The Company maintains a share option scheme and a share award plan for the purpose of providing incentives and rewards to the participants for their contributions to the Group. As at the date of this announcement, no option and share has been granted under the share option scheme and share award plan.

OUTLOOK

The Group will continue to 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 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 Rules Governing the Listing of securities on the Stock Exchange ("**Listing Rules**") during the year ended 31 December 2020.

Further information on the Company's corporate governance practices will be set out in the Corporate Governance Report contained in the Company's annual report for the year ended 31 December 2020, which will be sent to the shareholders of the Company in due course.

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

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct governing dealings by all Directors in the securities of the Company on terms no less exacting than the required standard of dealings as set out in Listing Rules. Specific enquiries have been made with all Directors, who have confirmed that, for the year ended 31 December 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 period for the year ended 31 December 2020.

DIVIDEND

The Board did not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: HK$0.02 per ordinary share, it was not passed in the annual general meeting of the Company held on 20 May 2020).

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director and a connected entity of a Director had a material interest, subsisted at the end of the year or at any time during the year ended 31 December 2020.

AUDIT COMMITTEE AND REVIEW OF UNAUDITED ANNUAL RESULTS

The Company has established its audit committee on 20 December 2013 with terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process, risk management and internal control systems of the Group. The audit committee has three members comprising the Company's three independent non-executive Directors, namely Mr. Lau Ying Kit, Mr. Pu Junwen and Mr. Zhang Dali. The chairman of the audit committee is Mr. Lau Ying Kit. The audit committee of the Company has reviewed the unaudited consolidated results of the Group for the year ended 31 December 2020.

Due to the outbreak of the Pandemic, the progress of certain audit field works in the PRC for the preliminary results in respect of the financial year ended 31 December 2020 (the "**2020 Annual Results**") have been disrupted by the work suspension and travel restrictions in force in Hebei of the PRC to combat the outbreak of the Pandemic during the period from January 2021 to early March 2021. As a result, additional time has been required for the auditor of the Company (the "**Auditor**") to complete its audit work and completing its audit procedures in respect of the 2020 Annual Results. In view of the above, the unaudited annual results for the year ended 31 December 2020 contained herein have not been agreed by the Auditor.

FURTHER DELAY IN PUBLICATION OF THE 2020 ANNUAL RESULTS AND DELAY IN DESPATCH OF THE 2020 ANNUAL REPORT

Reference is made to the announcement of the Company dated 30 March 2021 in relation to, among others, the delay in publication of the 2020 Annual Results. Given the reason as set out in the section headed "Audit Committee and Review of Unaudited Annual Results" in this announcement, additional time has been required for the Auditor to complete its audit work and completing its audit procedures in respect of the 2020 Annual Results. As such, there will be a further delay in the publication of the 2020 Annual Results. In addition, the annual report of the Company for the year ended 31 December 2020 (the "**2020 Annual Report**") will not be ready for publication by 30 April 2021 and the despatch of the 2020 Annual Report to the shareholders ("**Shareholders**") of the Company will be delayed.

The Board acknowledges that any delay in the despatch of the 2020 Annual Report will constitute non-compliance with rule 13.46(2)(a) of the Listing Rules. The Company will use its best endeavours to assist and cooperate with the Auditor in its performance of the required audit work, so that the 2020 Annual Results and the 2020 Annual Report can be finalised, approved and published and/or despatched (as the case may be) as soon as practicable.

The Board wishes to state that the operations of the Group have not been affected as a result of the above delay.

Pursuant to rule 13.50 of the Listing Rules, the Stock Exchange will normally require suspension of trading in an issuer's securities if an issuer fails to publish periodic financial information in accordance with the Listing Rules. As a result of the delay in publication of the 2020 Annual Results, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 1 April 2021. The trading suspension will remain in force until the publication of the announcement in relation to the 2020 Annual Results by the Company.

Following the completion of the auditing process in accordance with IFRS issued by IASB, the Company will issue further announcement(s) in relation to (i) the 2020 Annual Results and the material differences (if any) as compared with the unaudited annual results contained herein, (ii) the proposed date on which the forthcoming annual general meeting will be held, and (iii) the period during which the register of members of the Company will be closed in order to ascertain Shareholders' eligibility to attend and vote at the said meeting. In addition, the Company will issue further announcement as and when necessary if there are other material developments in the completion of the auditing process.

The financial information contained herein in respect of the annual results of the Group has not been audited and has not been agreed with the Auditor but reviewed by the Board. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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

Hong Kong, 30 April 2021

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

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