Wood Optimization

CHINA WOOD OPTIMIZATION (HOLDING) LIMITED

中 國 優 材 (控 股) 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1885

INTERIM REPORT 2019

Financial Highlights

For the six months ended 30 June 2019, operating results of the Group were as follows:

— Revenue for the six months ended 30 June 2019 amounted to about RMB89.4 million (2018: RMB117.6 million), representing a decrease of 24.0% as compared to the same period of previous financial year;

— Profit for the six months ended 30 June 2019 amounted to about RMB26.7 million (2018: RMB24.8 million), representing an increase of 7.7% as compared to the same period of previous financial year;

— Basic and diluted earnings per share for the six months ended 30 June 2019 based on weighted average number of ordinary shares of about 992,117,000 shares (2018: 1,000,000,000 shares) in issue was about RMB2.7 cents (2018: RMB2.5 cents); and

— The directors of the Company (the "**Directors**") do not declare the payment of an interim dividend for the six months ended 30 June 2019 (2018: Nil).

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2019 - unaudited
(Expressed in Renminbi ("RMB"))

The board of Directors (the "**Board**") of China Wood Optimization (Holding) Limited (the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2019 together with the comparative unaudited figures for the corresponding period in 2018 as follows:

		Six months ended 30 June	
		2019	2018
			(Note)
	Note	**RMB'000**	RMB'000
Revenue	4	**89,436**	117,560
Cost of sales		**(30,826)**	(61,138)
Gross profit	4	**58,610**	56,422
Other income		**10,561**	8,661
Selling expenses		**(2,116)**	(2,423)
Administrative expenses		**(32,099)**	(31,292)
Profit from operations		**34,956**	31,368
Finance costs	5(a)	**(1,322)**	(1,961)
Profit before taxation	5	**33,634**	29,407
Income tax	6	**(6,898)**	(4,565)
Profit attributable to equity shareholders of the Company for the period		**26,736**	24,842
Earnings per share			
— Basic and diluted (RMB)	7	**0.027**	0.025

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

The notes on pages 10 to 34 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 22.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019 - unaudited
(Expressed in RMB)

	Six months ended 30 June	
	2019	2018
		(Note)
	RMB'000	RMB'000
Profit for the period	**26,736**	24,842
Other comprehensive income for the period (before and after tax):		
Item that may be reclassified subsequently to profit or loss:		
— Exchange differences on translation into presentation currency	**(359)**	575
Total comprehensive income attributable to equity shareholders of the Company for the period	**26,377**	25,417

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

The notes on pages 10 to 34 form part of this interim financial report.

Consolidated Statement of Financial Position

At 30 June 2019 - unaudited
(Expressed in RMB)

	Note	**At 30 June 2019** **RMB'000**	At 31 December 2018 *(Note)* RMB'000
Non-current assets			
Property, plant and equipment	8	**195,089**	209,874
Right-of-use assets	9	**54,197**	–
Investment properties	10	**49,330**	50,892
Lease prepayments	9	**–**	52,616
Deferred tax assets	21	**8,242**	7,395
		306,858	320,777
Current assets			
Inventories	11	**55,307**	69,114
Trade receivables	12	**72,393**	58,984
Prepayments, deposits and other receivables	13	**120,274**	116,491
Prepaid income tax		**2,302**	2,302
Cash and cash equivalents	14	**163,790**	90,117
Time deposits	15	**33,300**	117,152
		447,366	454,160
Current liabilities			
Trade payables	16	**1,818**	–
Receipts in advance	17	**565**	1,315
Accrued expenses and other payables	18	**16,447**	17,941
Bank loans	19(a)	**50,000**	30,000
Lease liability	3(d)	**811**	–
Income tax payable		**3,028**	4,080
		72,669	53,336
Net current assets		**374,697**	400,824
Total assets less current liabilities		**681,555**	721,601

The notes on pages 10 to 34 form part of this interim financial report.

Consolidated Statement of Financial Position

At 30 June 2019 - unaudited
(Expressed in RMB)

	Note	**At 30 June 2019**	At 31 December 2018 *(Note)*
		RMB'000	RMB'000
Non-current liabilities			
Lease liability	3(d)	**1,349**	–
Deferred income	20	**26,743**	28,007
Deferred tax liability	21	**2,000**	3,800
		30,092	31,807
NET ASSETS		**651,463**	689,794
CAPITAL AND RESERVES	22		
Share capital		**7,921**	7,921
Reserves		**643,542**	681,873
TOTAL EQUITY		**651,463**	689,794

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

The notes on pages 10 to 34 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019 - unaudited
(Expressed in RMB)

	Attributable to equity shareholders of the Company						
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory reserves RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2018	7,921	242,361	30	42,594	4,441	338,692	636,039
Changes in equity for the six months ended 30 June 2018:							
Profit for the period	–	–	–	–	–	24,842	24,842
Other comprehensive income	–	–	–	–	575	–	575
Total comprehensive income	–	–	–	–	575	24,842	25,417
Dividends approved in respect of the previous year (Note 22(a))	–	(16,862)	–	–	–	–	(16,862)
Balance at 30 June 2018 and 1 July 2018	7,921	225,499	30	42,594	5,016	363,534	644,594
Profit for the period	–	–	–	–	–	44,805	44,805
Other comprehensive income	–	–	–	–	395	–	395
Total comprehensive income	–	–	–	–	395	44,805	45,200
Appropriation to reserves	–	–	–	8,438	–	(8,438)	–
Balance at 31 December 2018	7,921	225,499	30	51,032	5,411	399,901	689,794

The notes on pages 10 to 34 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019 - unaudited
(Expressed in RMB)

	Attributable to equity shareholders of the Company						
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory reserves RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2019	7,921	225,499	30	51,032	5,411	399,901	689,794
Changes in equity for the six months ended 30 June 2019:							
Profit for the period	–	–	–	–	–	26,736	26,736
Other comprehensive income	–	–	–	–	(359)	–	(359)
Total comprehensive income	–	–	–	–	(359)	26,736	26,377
Dividends approved in respect of the previous year (Note 22(a))	–	–	–	–	–	(17,283)	(17,283)
Purchase of own shares (Note 22(b))	–	(44,755)	–	–	–	(2,670)	(47,425)
Balance at 30 June 2019	7,921	180,744	30	51,032	5,052	406,684	651,463

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

The notes on pages 10 to 34 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2019 - unaudited
(Expressed in RMB)

	Six months ended 30 June	
	2019	2018
		(Note)
	RMB'000	RMB'000
Operating activities		
Cash generated from operations	**43,003**	97,484
Income tax paid	**(10,598)**	(1,205)
Net cash generated from operating activities	**32,405**	96,279
Investing activities		
Payments for purchase of property, plant and equipment	**(5,283)**	(6,198)
Proceeds from disposal of property, plant and equipment	**3,935**	630
Increase in time deposits	**–**	(61,100)
Decrease in time deposits	**83,852**	80,460
Other cash flows arising from investing activities	**4,910**	1,173
Net cash generated from investing activities	**87,414**	14,965

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

The notes on pages 10 to 34 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2019 - unaudited
(Expressed in RMB)

	Note	Six months ended 30 June 2019 RMB'000	2018 (Note) RMB'000
Financing activities			
Proceeds from new bank loan		**20,000**	–
Repayment of bank and other loans		**–**	(44,828)
Capital element of lease rentals paid		**(116)**	(3,577)
Interest element of lease rentals paid		**(19)**	(417)
Dividends paid to the equity shareholders of the Company	22(a)	**(17,283)**	(16,862)
Purchase of own shares	22(b)	**(47,425)**	–
Other cash flows arising from financing activities		**(1,322)**	(1,565)
Net cash used in financing activities		**(46,165)**	(67,249)
Net increase in cash and cash equivalents		**73,654**	43,995
Cash and cash equivalents at 1 January	14	**90,117**	131,852
Effect of foreign exchange rate changes		**19**	102
Cash and cash equivalents at 30 June	14	**163,790**	175,949

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

The notes on pages 10 to 34 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in RMB unless otherwise indicated)

1 CORPORATE INFORMATION

China Wood Optimization (Holding) Limited (the "Company") was incorporated in the Cayman Islands on 6 June 2012 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time. The shares of the Company were listed on the GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 6 January 2014. The listing of the Company's shares was transferred from the GEM to the Main Board of the Stock Exchange on 12 September 2016. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2019 comprise the Group. The principal activities of the Group are sale of wooden products and rendering of wood processing procedure service.

2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with International Accounting Standard ("**IAS**") 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the "**IASB**"). It was authorised for issue on 28 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410 ("**HKSRE 2410**"), *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the board of directors of the Company is included on page 35.

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2018 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 28 March 2019.

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, *Leases*

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases – incentives, and* SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

3 CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Changes in the accounting policies (Continued)

(ii) Lessee accounting

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to right-of-use assets as disclosed in Note 9.

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis.

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

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

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

3 CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Changes in the accounting policies (Continued)

(iii) Leasehold investment property

Under IFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and / or for capital appreciation ("**leasehold investment properties**"). The adoption of IFRS 16 does not have a significant impact on the Group's financial statements as the Group previously elected to apply IAS 40, *Investment properties*, to account for all of its leasehold properties that were held for investment purposes as at 31 December 2018. Consequentially, these leasehold investment properties continue to be stated at cost less accumulated depreciation and impairment loss.

(iv) Lessor accounting

In addition to leasing out the investment property referred to in paragraph (a)(iii) above, the Group leases out a number of items of machinery and equipment as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under IAS 17.

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

3 CHANGES IN ACCOUNTING POLICIES (Continued)

(c) Transitional impact

The Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019. As at 1 January 2019, the Group entered into only one lease of an office space with the lease term ended in 6 May 2019. As a result, the adoption of the IFRS 16 does not have a material impact on the consolidated financial statements of the Group as at 1 January 2019.

So far as the impact of the adoption of IFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of IFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

The Group presents right-of-use assets that do not meet the definition of investment property in "right-of-use assets" and presents lease liabilities separately in the statement of financial position.

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 RMB'000	***Impact on initial application of IFRS 16*** RMB'000	**Carrying amount at 1 January 2019** RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:			
Lease prepayments	52,616	(52,616)	–
Right-of-use assets	–	52,616	52,616
Total non-current assets	**320,777**	**–**	**320,777**

3 CHANGES IN ACCOUNTING POLICIES (Continued)

(c) Transitional impact (Continued)

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to IFRS 16 is as follows:

	At 30 June 2019 RMB'000	At 1 January 2019 RMB'000
Office leased for own use, carried at depeciated cost	**2,150**	–
Lease prepayments, carried at depreciated cost	**52,047**	52,616
	54,197	52,616

(d) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to IFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present value of the minimum lease payments RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Tota Minimum lease payments RMB'000
Within 1 year	**811**	**818**	–	–
After 1 year but within 2 years	**752**	**818**	–	–
After 2 years but within 5 years	**597**	**682**	–	–
	1,349	**1,500**	–	–
	2,160	**2,318**	–	–
Less: total future interest expenses		**(158)**		–
Present value of lease liabilities		**2,160**		–

3 CHANGES IN ACCOUNTING POLICIES (Continued)

(e) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if IAS 17 had been applied during the six months ended 30 June 2019.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

The following tables may give an indication of the estimated impact of adoption of IFRS 16 on the Group's financial result, segment results and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under IFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply to 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

	2019				2018
	Amounts reported under IFRS 16 (A)	Add back: IFRS 16 depreciation and interest expense (B)	Deduct: Estimated amounts related to operating leases as if under IAS 17 (Note 1) (C)	Hypothetical amounts for 2019 as if under IAS 17 (D=A+B-C)	Compared to amounts reported for 2018 under IAS 17
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial result for the six months ended 30 June 2019 impacted by the adoption of IFRS 16:					
Profit from operations	**34,956**	**127**	**(135)**	**34,948**	31,368
Finance costs	(1,322)	19	–	(1,303)	(1,961)
Profit before taxation	**33,634**	**146**	**(135)**	**33,645**	29,407
Profit for the period	**26,736**	**146**	**(135)**	**26,747**	24,842

3 CHANGES IN ACCOUNTING POLICIES (Continued)

(e) Impact on the financial result, segment results and cash flows of the Group (Continued)

	2019			2018
	Amounts reported under IFRS 16 (A) RMB'000	Estimated amounts related to operating leases as if under IAS 17 (Notes 1 & 2) (B) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 (C=A-B) RMB'000	Compared to amounts reported under IAS 17 RMB'000
Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of IFRS 16:				
Cash generated from operations	43,003	(135)	42,868	97,484
Net cash generated from operating activities	**32,405**	**(135)**	**32,370**	130,958
Capital element of lease rentals paid	(116)	116	–	(3,577)
Interest element of lease rentals paid	(19)	19	–	(417)
Net cash used in financing activities	**(46,165)**	**135**	**(46,030)**	(67,249)

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

4 REVENUE AND SEGMENT REPORTING

(a) Disaggregation of revenue

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products or service lines		
– Sales of Processed Wood Panels	**15,046**	59,185
– Rendering of Wood Processing Procedure Service	**74,390**	58,375
	89,436	117,560

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

(b) Segment reporting

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

- Sales of Processed Wood Panels: this segment produces and sells wooden 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.

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Segment results

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the six months ended 30 June 2019 and 2018. The Group's other operating expenses, such as selling and administrative expenses, and assets and liabilities, including the sharing of technical know-how, are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income and interest expenses is presented.

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

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

(Expressed in RMB unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Segment results (Continued)

	Six months ended 30 June 2018		
	Sales of Processed Wood Panels RMB'000	Rendering of Wood Processing Procedure Service RMB'000	Total RMB'000
Revenue from external customers and reportable segment revenue	59,185	58,375	117,560
Reportable segment gross profit	15,171	41,251	56,422

(ii) Geographic information

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

5 PROFIT BEFORE TAXATION

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

(a) Finance costs:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Interest on bank and other loans	**1,302**	1,368
Interest on lease liability and obligations under finance lease	**19**	417
Bank charges and other finance costs	**1**	176
Total finance costs	**1,322**	1,961

(b) Staff costs:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Salaries, wages and other benefits	**7,716**	7,132
Contributions to defined contribution retirement schemes	**712**	713
	8,428	7,845

(Expressed in RMB unless otherwise indicated)

5 PROFIT BEFORE TAXATION (Continued)

(c) Other items:

	Six months ended 30 June	
	2019	2018
		(Note)
	RMB'000	RMB'000
Depreciation and amortisation		
— property, plant and equipment	**12,501**	12,575
— investment properties	**1,562**	1,562
— lease prepayments	**–**	569
— right of use assets	**696**	–
Net loss on disposal of property, plant and equipment	**1,796**	425
Operating lease charges of short-term lease	**348**	427
Research and development costs (including costs relating to staff costs disclosed in *Note 5(b)*)	**6,145**	5,094
Interest income	**(4,910)**	(1,173)
Cost of inventories *(Note 11(b))*	**26,172**	61,138

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 3.

6 INCOME TAX

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Current taxation:		
— The PRC Corporate Income Tax	**5,745**	5,111
— The PRC Withholding Tax	**3,800**	1,300
	9,545	6,411
Deferred taxation *(Note 21)*:		
— Origination and reversal of temporary differences	**(847)**	(546)
— Retained profits to be distributed	**(1,800)**	(1,300)
	(2,647)	(1,846)
	6,898	4,565

6 INCOME TAX (Continued)

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

The Company and the subsidiaries of the Group incorporated in the British Virgin Islands and Hong Kong, respectively, are subject to Hong Kong Profits Tax rate of 16.5% for the six months ended 30 June 2019 (six months ended 30 June 2018: 16.5%). No provision for Hong Kong Profits Tax has been made, as these companies have no assessable profits which are subject to Hong Kong Profits Tax for the six months ended 30 June 2019 (six months ended 30 June 2018: RMBNil).

The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to the PRC Corporate Income Tax rate of 25% for the six months ended 30 June 2019 (six months ended 30 June 2018: 25%). The subsidiaries of the Group established in the PRC obtained approval from the tax bureau to be taxed as an advanced and new technology enterprise. Pursuant to the approval, these subsidiaries are entitled to a preferential PRC Corporate Income Tax rate of 15% for the three years ending 31 December 2019 or 31 December 2020. In addition to the preferential PRC Corporate Income Tax rate, these subsidiaries are also entitled to an additional tax deductible allowance calculated at 75% (six months ended 30 June 2018: 50%) of the qualified research and development costs incurred by these subsidiaries.

Two subsidiaries of the Group established in the PRC declared on 11 March 2019 that RMB26,000,000 current profits and RMB50,000,000 retained profits, respectively, will be distributed to China Wood Optimization (HK) Limited ("**China Wood HK**"), a subsidiary of the Group established in Hong Kong. In May 2019, the distributed profits of RMB76,000,000 have been paid to China Wood HK. The directors are of the opinion that these distributed profits of RMB76,000,000 are subject to a PRC withholding tax rate of 5% according to the Sino-Hong Kong Double Tax Arrangement and the relevant regulations. PRC withholding tax amounting to RMB3,800,000 was paid in May 2019 accordingly.

A subsidiary of the Group established in the PRC declared on 12 August 2019 that RMB40,000,000 retained profits will be distributed to China Wood HK. The directors are of the opinion that these profits of RMB40,000,000 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 a deferred tax liability of RMB2,000,000 has been provided as at 30 June 2019 accordingly.

7 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share for the six months ended 30 June 2019 is calculated based on the profit attributable to equity shareholders of the Company of RMB26,736,000 (six months ended 30 June 2018: RMB24,842,000) and the weighted average of 992,117,000 ordinary shares (six months ended 30 June 2018: 1,000,000,000 ordinary shares) in issue during the interim period, calculated as follows:

	Six months ended 30 June	
	2019	2018
	'000	'000
Issued ordinary shares at 1 January	**1,000,000**	1,000,000
Effect of repurchased of own shares *(Note 22(b))*	**(7,883)**	–
Weighted average number of ordinary shares at 30 June	**992,117**	1,000,000

(b) Diluted earnings per share

There was no difference between basic and diluted earnings per share as the Company did not have any dilutive potential shares outstanding during the six months ended 30 June 2019 and 2018.

8 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired items of property, plant and equipment with a cost of RMB5,380,000 (six months ended 30 June 2018: RMB3,223,000). Items of building and machinery with a net book value of RMB7,664,000 were disposed of during the six months ended 30 June 2019 (six months ended 30 June 2018: RMB1,261,000).

9 RIGHT-OF-USE ASSETS

As discussed in Note 3, the Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets which were previously classified as lease prepayments.

During the six months ended 30 June 2019, the Group entered into a lease agreement for use of office and therefore recognised the additions of right-of-use assets of RMB2,277,000. The lease of office contains minimum monthly lease payment terms that are fixed. The payment term is common in offices in Hong Kong.

Further details on the net book value of the Group's right-of-use assets by class of underlying assets are set out in Note 3.

10 INVESTMENT PROPERTIES

	2019	2018
	RMB'000	RMB'000
Cost:		
At 1 January/30 June/31 December	**65,795**	65,795
Accumulated amortisation:		
At 1 January	**(14,903)**	(11,777)
Charge for the period/year	**(1,562)**	(3,126)
At 30 June/31 December	**(16,465)**	(14,903)
Net book value:		
At 30 June/31 December	**49,330**	50,892

Notes:

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

(ii) Investment properties leased out under operating leases

The Group leases out investment properties under operating leases. The leases run for an initial period of 2 years, with an option to renew the lease after that date at which time all terms are renegotiated. The leases do not contain contingent rentals.

The Group's total future minimum lease receivable under non-cancellable operating leases are receivable as follows:

	At 30 June	At 31 December
	2019	2018
	RMB'000	RMB'000
Within 1 year	**10,540**	13,088
After 1 year but within 5 years	**–**	4,115
	10,540	17,203

(Expressed in RMB unless otherwise indicated)

11 INVENTORIES

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

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Raw materials	**2,934**	5,830
Finished goods	**52,373**	63,284
	55,307	69,114

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

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Carrying amount of inventories sold	**26,172**	61,138

12 TRADE RECEIVABLES

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Trade receivables from third parties, net of loss allowance	**72,393**	58,984

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

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

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Aged within 1 month	**19,097**	19,101
Aged from 1 to 2 months	**16,405**	18,353
Aged from 2 to 3 months	**17,681**	21,530
Aged over 3 months	**19,210**	–
	72,393	58,984

13 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Prepayments for purchase of inventories	**31,688**	28,424
Deposits for other loan and obligations under finance lease	**2,213**	2,213
Loans to third parties (Notes (i) and (ii))	**80,000**	80,000
Others	**6,373**	5,854
	120,274	116,491

Notes:

(i) As at 10 August 2018, Jiangsu AMS entered into a short-term loan agreement with a third party borrower pursuant to which Jiangsu AMS agreed to lend to this third party borrower a one year short-term loan in the principal amount of RMB50,000,000. The interest rate of this loan is 10% per annum. The repayment of the above loan was due on 17 August 2019 and Jiangsu AMS entered into a supplemental loan agreement with this third party borrower pursuant to which Jiangsu AMS agreed to extend the term for one more year to 17 August 2020.

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

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

14 CASH AND CASH EQUIVALENTS

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Cash at bank and on hand	**163,790**	90,117

The Group's operation in the PRC conducted its business in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

15 TIME DEPOSITS

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Time deposits with original maturity over 3 months *(Note (i))*	**31,800**	115,652
Other restricted deposits	**1,500**	1,500
	33,300	117,152

Note:

(i) At 31 December 2018, time deposits of RMB92,900,000 have been pledged for bank loans of a third party supplier of the Group amounting to RMB88,000,000, which were fully repaid by the borrower during the six months ended 30 June 2019 and the corresponding time deposits pledges have been released at the same time.

The above pledges for bank loans constitute issuance of guarantees to third parties. Further details are set out in Note 26.

16 TRADE PAYABLES

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Trade payables to third parties	**1,818**	–

As of the end of the reporting period, the ageing analysis of trade payables, based on the maturity date, is as follows:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Due within 1 month or on demand	**1,818**	–

17 RECEIPTS IN ADVANCE

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Receipts in advance from customers	**565**	1,315

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

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

18 ACCRUED EXPENSES AND OTHER PAYABLES

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Payables for construction and purchase of property, plant and equipment	**1,867**	1,770
Payables for staff related costs	**3,532**	3,774
Payables for interest expenses	**–**	3
Deposit	**2,500**	2,500
Others	**3,391**	5,420
Financial liabilities measured at amortised cost	**11,290**	13,467
Payables for miscellaneous taxes	**2,629**	1,946
Deferred income (Note 20)	**2,528**	2,528
	16,447	17,941

All of the accrued expenses and other payables are expected to be settled or recognised in profit or loss within one year or are repayable on demand.

19 BANK LOANS

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

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Short-term bank loans:		
— secured (Note (i))	**50,000**	30,000
	50,000	30,000

Note:

(i) At 30 June 2019, the aggregate carrying value of the secured property, plant and equipment, investment properties and right-of-use assets of the Group for the short-term bank loan is RMB114,073,000 (31 December 2018: RMB58,460,000).

(b) At 30 June 2019, the Group's banking loan facilities amounting to RMB50,000,000 (31 December 2018: RMB50,000,000) were utilised to the extent of RMB30,000,000 (31 December 2018: RMB30,000,000).

20 DEFERRED INCOME

	2019 RMB'000	2018 RMB'000
At 1 January	**30,535**	33,063
Credited to profit or loss	**(1,264)**	(2,528)
	29,271	30,535
Less: Current portion of deferred income	**(2,528)**	(2,528)
At 30 June/31 December	**26,743**	28,007

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

21 DEFERRED TAX ASSETS AND LIABILITIES

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

Deferred tax arising from:	Assets — Government grants and related amortisation	Asset — Unused tax losses	Asset — 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 2018	4,956	1,257	340	(31)	(1,300)	5,222
(Charged)/credited to the consolidated statement of profit or loss	(379)	1,316	(76)	12	(2,500)	(1,627)
At 31 December 2018	4,577	2,573	264	(19)	(3,800)	3,595
(Charged)/credited to the consolidated statement of profit or loss (Note 6)	(190)	1,030	1	6	1,800	2,647
At 30 June 2019	4,387	3,603	265	(13)	(2,000)	6,242

Notes to the Unaudited Interim Financial Report

(Expressed in RMB unless otherwise indicated)

22 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: RMBNil).

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK$0.02 per ordinary share (six months ended 30 June 2018: HK$0.02 per ordinary share)	**17,283**	16,862

(b) Purchase of own shares

During the interim period, the Company repurchased its own shares on the Stock Exchange as follows:

Month/Year	Number of shares repurchased	Highest price paid per share RMB	Lowest price paid per share RMB	Total cost RMB'000
April 2019	**14,252,000**	**1.73**	**1.71**	**24,508**
May 2019	**13,096,000**	**1.77**	**1.71**	**22,917**
				47,425

23 MATERIAL RELATED PARTY TRANSACTIONS

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

Key management personnel remuneration

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Short-term employee benefits	**1,636**	1,544
Retirement schemes contributions	**72**	70
	1,708	1,614

24 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The Group does not have any financial instruments measured at fair value at 30 June 2019 and 31 December 2018.

25 COMMITMENTS

(a) Capital commitments

At 30 June 2019, the Group has no material outstanding capital commitments.

(b) Operating lease commitments

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

	At 31 December
	2018
	RMB'000
Within 1 year	272

The Group is the lessee in respect of an office premise held under leases which was previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases and the initial adoption of IFRS 16 does not have a material impact on these leases and the initial adoption of IFRS 16 does not have a material impact on the consolidated financial statements of the Group at 1 January 2019 (see Note 3). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in Note 3.

26 CONTINGENT LIABILITIES

At 30 June 2019, the Group has the following guarantees:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Guarantee for bank loan of a third party supplier *(Note (i))*	**–**	92,900
Guarantee for other loan of a third party customer *(Note (ii))*	**50,000**	50,000
	50,000	142,900

Notes:

(i) Further details of this guarantee are set out in Note 15.

(ii) At 30 June 2019, the Group provided a corporate guarantee for a long-term other loan of a third party customer of Hebei AMS Wood Processing Co., Ltd. ("**Hebei AMS**") amounting to RMB50,000,000 (31 December 2018: RMB50,000,000). This other loan will be expired in June 2020.

27 COMPARATIVE FIGURES

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 3.

KPMG

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

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 2 to 34 which comprises the consolidated statement of financial position of China Wood Optimization (Holding) Limited as at 30 June 2019 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
28 August 2019

BUSINESS REVIEW

For the six months ended 30 June 2019, the Group continued to engage in the business of sale of its self-produced less-shaved Processed Wood Panels (as defined below), as well as provide Wood Processing Procedure Service (as defined below) to customers who carry out purchasing of raw poplar wood panels, and can choose to conduct the drying, shaving and cutting processes at their own facilities or elsewhere. The Group provides the service to customer for their poplar wood panels at a fee. The impregnation fluid and Wood Processing Procedure constitute core technologies of the Group and which can highlight the Group's intrinsic value and exceptional expertise. Furthermore, the service yields a higher gross profit margin than that of less-shaved Processed Wood Panels.

The Group uses a self-developed processing procedure ("**Wood Processing Procedure**") and a self-developed impregnation fluid made with biological synthetic resin technologies for less-shaved Processed Wood Panels. This procedure is applied to poplars, a fast growing tree species with a growth cycle of about seven to ten years, which is relatively shorter than typical tree species used by the construction industry. The poplars can withstand long, cold winters and short summers, and its supply in the PRC is relatively abundant and stable. The Group's Wood Processing Procedure can help improve the poplar wood panels' hardness, shrinkage and swelling rate, density, deformation resistance, cracking resistance, anti-corrosiveness, bending strength and elasticity. The less-shaved Processed Wood Panels also have stronger moisture and flame resistance, and the natural wood grain and pattern are able to be preserved in the end products as well. After the Group's Wood Processing Procedure, the poplar wood panels can be used to substitute natural solid wood panels, hence have a wide range of applications in furniture making and indoor furnishings.

Less-shaved Processed Wood Panels

The Group's less-shaved Processed Wood Panels ("**less-shaved Processed Wood Panels**") are made of poplar wood panels that undergo the Group's Wood Processing Procedure and then shaved, sanded and trimmed into strips of wood panels according to the dimensions required and other specifications given by customers. Less-shaved Processed Wood Panels are generally used to produce floor planks, doors and furniture.

Rendering of Wood Processing Procedure Service

The Group provides Wood Processing Procedure service ("**Wood Processing Procedure Service**") to customers who carry out purchasing of raw wood panels, and can choose to conduct the drying, shaving and cutting processes at their own facilities or elsewhere. Since the impregnation fluid is self-developed and the production cycle of Wood Processing Procedure is short, the cost of the service is notably lower than less-shaved Processed Wood Panels. It is therefore able to yield a higher gross profit margin than that of less-shaved Processed Wood Panels.

Recent Developments

In 2017, the Group's factory located in Handan (the "**Handan Factory**"), Hebei Province, the PRC, was informed by local government authorities that it had to dispose of its 10-tonne coal-fired boiler by the end of October 2017, in order to comply with the work plan for air pollution control in Beijing, Tianjin and Hebei Province and its surrounding areas in 2017 (《京津冀及周邊地區2017年大氣污染防治工作方案》) (the "**Air Pollution Control Work Plan**"). As a consequence, the Group ceased operation of its coal-fired boiler to comply with the air pollution control requirement. In order to resume the operation, Handan Factory had upgraded its production facilities and enhanced its production process to comply with the Air Pollution Control Word Plan. At the same time, the local government also assisted in the construction of a natural gas pipeline for use by the Handan Factory. Under the joint efforts of the local government and the Handan Factory, the Handan Factory began its trial operation in July 2019.

On 29 March 2019, the Board approved the adoption of a share award plan (the "**Share Award Plan**"). The purposes of the Share Award Plan are to recognise and reward the contribution of eligible participants to the growth and development of the Group, to give incentives to eligible participants in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. For details of the Share Award Plan, please refer to the announcement of the Company dated 29 March 2019.

In early June 2019, the management of the Company, together with the leader of the PRC, attended the 23rd St. Petersburg International Economic Forum (the "**Forum**") and related trade events. The Forum, first held in 1997 and hosted by the Ministry of Economic Development of Russia, is dubbed the "Russian Davos". The Company was very delighted to have attended the Forum and joined the plenary session attended by Russian President Putin and leaders of other nations, and have exchanged views and participated in the discussion about Chinese and Russian economies and cooperation with regard to the use of technology to maximize value of plantation, and where consensus on further cooperation was reached.

On 10 August 2018, Jiangsu AMS Wood Industry Company Limited ("**Jiangsu AMS**") entered into a short-term loan agreement with Hebei Overseas Listed Equity Investment Fund Co., Ltd.* ("河北境外上市股權投資基金有限公司") (the "**Hebei Overseas**") pursuant to which Jiangsu AMS agreed to lend to Hebei Overseas a one year short-term loan in the principal amount of RMB50.0 million (the "**Loan**") at an interest rate of 10.0% per annum on the loan principal. Since the Loan will provide interest income to the Group and the Loan's interest rate is higher than the interest rate received by the Group by placing cash deposits with commercial banks in the PRC, the Directors consider the transaction is fair and reasonable and in the interest of the Company and its shareholders as a whole. The repayment of the Loan was due on 17 August 2019. On 16 August 2019, Jiangsu AMS entered into a supplemental loan agreement with Hebei Overseas pursuant to which Jiangsu AMS agreed to extend the term of the Loan for one more year to 17 August 2020. For details of the provision of loan, please refer to the announcements of the Company dated 10 August 2018 and 16 August 2019.

Management Discussions and Analysis

OUTLOOK

The Group will continue to increase market recognition of its less-shaved Processed Wood Panels and focus on providing Wood Processing Procedure Service to customers in the PRC. To those ends, the Group will continue to hire more research and development specialists to strengthen its expertise and know-how on developing impregnation fluids and Wood Processing Procedure.

By focusing on rendering its Wood Processing Procedure Service, the Group will be able to yield a higher gross profit margin with its core technologies. In addition, the Group will be able to reduce the need for production facilities and make full use of its processing capacity.

Financial Review

Revenue

The Group's revenue decreased by about RMB28.2 million or 24.0% from about RMB117.6 million for the six months ended 30 June 2018 to about RMB89.4 million for the six months ended 30 June 2019. The decrease in revenue was mainly attributable to the decrease in sales of previous years' stock of less-shaved Processed Wood Panels with higher unit selling price. Since certain customers were able to purchase adequate raw poplar wood panels for the Group to conduct its Wood Processing Procedure, the demand on previous years' stock of less-shaved Processed Wood Panels was reduced. As a consequence, revenue from the sale of less-shaved Processed Wood Panels decreased, however, revenue from rendering of Wood Processing Procedure Service increased.

REVENUE BY SEGMENT

Analysis of revenue by segment is as follows:

	Six months ended 30 June							
	2019				2018			
	Weight (Ton) (Note 1)	Volume (m^3)	RMB'000	%	Weight (Ton) (Note 1)	Volume (m^3)	RMB'000	%
Less-shaved Processed Wood Panels	–	4,109	15,046	16.8	–	16,417	59,185	50.3
Rendering of Wood Processing Procedure Service	38,647	–	74,390	83.2	30,932	–	58,375	49.7
	38,647	4,109	89,436	100.0	30,932	16,417	117,560	100.0

Note:

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

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

	Six months ended 30 June	
	2019	2018
	RMB	RMB
Less-shaved Processed Wood Panals — average selling price per cubic meter	**3,662**	3,605
Rendering of Wood Processing Procedure Service — average selling price per ton consumed	**1,925**	1,887

Less-shaved Processed Wood Panels

Revenue from sales of less-shaved Processed Wood Panels decreased by about RMB44.2 million, or 74.7% from about RMB59.2 million for the six months ended 30 June 2018 to about RMB15.0 million for the six months ended 30 June 2019. The decrease was primarily due to certain customers were able to purchase adequate raw poplar wood panels for the Group to conduct its Wood Processing Procedure and therefore they reduced in the demand of the Group's previous years' stock of less-shaved Processed Wood Panels. It resulted in the decrease in revenue from sales of less-shaved Processed Wood Panels. The sales volume of less-shaved Processed Wood Panels also decreased by about 12,308m^3 from about 16,417m^3 for the six months ended 30 June 2018 to about 4,109m^3 for the six months ended 30 June 2019.

However, the average selling price of less-shaved Processed Wood Panels remained stable at RMB3,605/m^3 and RMB3,662/m^3 for the six months ended 30 June 2018 and 2019, respectively.

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 purchasing raw wood panels, and can choose to conduct the drying, shaving and cutting by themselves or elsewhere at a lower cost than the Group during the six months ended 30 June 2019. The customers provide their raw wood panels to the Group and the Group charged an average processing fee of about RMB1,925 per ton of the impregnation fluid consumed during the Wood Processing Procedure for the six months ended 30 June 2019, as compared to the average processing fee of RMB1,887 per ton for the six months ended 30 June 2018. As discussed under the paragraph headed "Revenue" above, since certain customers were able to purchase adequate raw poplar wood panels for the Group to conduct its Wood Processing Procedure and therefore they reduced in the demand of the Group's previous years' stock of less-shaved Processed Wood Panels. As a result, revenue derived from rendering of Wood Processing Procedure Service increased by about RMB16.0 million or 27.4% from about RMB58.4 million for the six months ended 30 June 2018 to about RMB74.4 million for the six months ended 30 June 2019.

Cost of Sales

Cost of sales of the Group decreased substantially by about RMB30.3 million or 49.6% from about RMB61.1 million for the six months ended 30 June 2018 to about RMB30.8 million for the six months ended 30 June 2019. Since the unit cost of sale of less-shaved Processed Wood Panel was higher than that of the rendering of Wood Processing Procedure Service, the decrease in sales volume of less-shaved Processed Wood Panels resulted in the decrease in total cost of sales of the Group.

Gross Profit

Gross profit of the Group increased by about RMB2.2 million or 3.9% from about RMB56.4 million for the six months ended 30 June 2018 to about RMB58.6 million for the six months ended 30 June 2019. The increase in gross profit of the Group was mainly attributable to the increase in revenue from rendering of Wood Processing Procedure Service with higher gross profit margin for the six months ended 30 June 2019 as discussed under the paragraph headed "Revenue" above.

GROSS PROFIT MARGIN BY SEGMENT

Overall gross profit margin of the Group increased from about 48.0% for the six months ended 30 June 2018 to about 65.5% for the six months ended 30 June 2019. Such increase was mainly attributable to the increase in revenue share from rendering of Wood Processing Procedure Service which yields a higher gross profit margin of about 73.3% for the six months ended 30 June 2019 than that of sales of less-shaved Processed Wood Panels of about 27.2% for the six months ended 30 June 2019.

Less-shaved Processed Wood Panels

Gross profit margin of less-shaved Processed Wood Panels increased from about 25.6% for the six months ended 30 June 2018 to about 27.2% for the six months ended 30 June 2019. Such increase was mainly attributable to the slight increase in average selling price per cubic meter of less-shaved Processed Wood Panels from about RMB3,605/m^3 for the six months ended 30 June 2018 to about RMB3,662/m^3 for the six months ended 30 June 2019.

Rendering of Wood Processing Procedure Service

Gross profit margin of rendering of Wood Processing Procedure Service increased from about 70.7% for the six months ended 30 June 2018 to about 73.3% for the six months ended 30 June 2019. The increase was primarily due to the increase in the average charging price per ton of impregnation fluid consumed from about RMB1,887 per ton consumed for the six months ended 30 June 2018 increased to about RMB1,925 per ton consumed for the six months ended 30 June 2019.

Other Income

Other income mainly comprises rental income from operation leases, income from government grants and interest income. The Group's other income increased by about RMB1.9 million or 21.8% from about RMB8.7 million for the six months ended 30 June 2018 to about RMB10.6 million for the six months ended 30 June 2019. The increase was mainly due to the increase in the Group's interest income by about RMB3.7 million from about RMB1.2 million for the six months ended 30 June 2018 to about RMB4.9 million for the six months ended 30 June 2019. The increase in interest income was mainly due to the increase in a loan interest income of about RMB2.3 million for the six months ended 30 June 2019 derived from the loan provided to Hebei Overseas by the Group in the second half of 2018. For details of the provision of the loan, please refer to the announcements of the Company dated 10 August 2018 and 16 August 2019. On the other hand, due to the upgrading of the production facilities of the Handan Factory in order to comply with the Air Pollution Control Work Plan, some obsoleted equipment had been disposed of and recorded an increase in loss on disposal of property, plant and equipment of about RMB1.4 million for the six months ended 30 June 2019.

Selling Expenses

The Group's selling expenses decreased by about RMB0.3 million or 12.5% from about RMB2.4 million for the six months ended 30 June 2018 to about RMB2.1 million for the six months ended 30 June 2019. Such decrease was principally due to the decrease in advertising and promotion expenses of about RMB0.6 million for the six months ended 30 June 2019 since the Group did not participate in any exhibition during the six months ended 30 June 2019.

Administrative Expenses

The administrative expenses mainly included depreciation and amortisation charges, factory suspension losses, staff costs and research and development expenses. The Group's administrative expenses increased by about RMB0.8 million or 2.6% from about RMB31.3 million for the six months ended 30 June 2018 to about RMB32.1 million for the six months ended 30 June 2019. The Group's administrative expenses remained stable for the six months ended 30 June 2018 and 2019 because there was no material change in the business operation during the reporting period.

Finance Costs

The Group's finance costs decreased by about RMB0.7 million or 35.0% from about RMB2.0 million for the six months ended 30 June 2018 to about RMB1.3 million for the six months ended 30 June 2019. The decrease was mainly attributable to the decrease in interest expenses of about RMB0.4 million on finance lease entered into with a financial leasing institution in the fourth quarter of 2015 for leasing some machineries used by our factory located in Huai'an, Jiangsu Province.

Income Tax Expenses

The Group's income tax expenses increased by about RMB2.3 million or 50.0% from about RMB4.6 million for the six months ended 30 June 2018 to about RMB6.9 million for the six months ended 30 June 2019. The effective tax rate of the Group also increased from 15.5% for the six months ended 30 June 2018 to 20.5% for the six months ended 30 June 2019. The increases in income tax expenses and effective tax rate were mainly due to the fact that a PRC withholding tax of RMB2.0 million was accrued during the six months ended 30 June 2019 for a proposed distribution of RMB40.0 million out of the retained profits of a subsidiary of the Group incorporated in the PRC to its immediate holding company in 2019.

Profit for the Period

As a combined result of the factors discussed above, the Group's profit for the period increased by about RMB1.9 million or 7.7% from about RMB24.8 million for the six months ended 30 June 2018 to about RMB26.7 million for the six months ended 30 June 2019. The Group's net profit margin also increased from about 21.1% for the six months ended 30 June 2018 to about 29.9% for the six months ended 30 June 2019. Such increase was mainly due to the increase in gross profit and other income and the decrease in selling expenses and finance costs for the six months ended 30 June 2019, which was partially offset by the increase in administrative expenses and income tax expenses.

LIQUIDITY, FINANCIAL RESOURCES AND TREASURY POLICY

	As at 30 June 2019	As at 31 December 2018
Current ratio	**6.16 times**	8.52 times
Gearing ratio*	**0.15 times**	0.12 times

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

The current ratio of the Group as at 30 June 2019 was about 6.16 times as compared to that of about 8.52 times as at 31 December 2018. The gearing ratio as at 30 June 2019 was about 0.15 times as compared to that of 0.12 times as at 31 December 2018. The decrease in current ratio and the increase in gearing ratio were mainly due to the borrowing of a new bank loan of RMB20.0 million during the six months ended 30 June 2019.

The Group's finance department closely monitors the Group's cash flow position to ensure that the Group has sufficient working capital available to meet its operational needs. The finance department takes into account trade receivables, trade payables, cash at bank and on hand, repayment of bank and other loans and lease liability, administrative and capital expenditures to prepare the cash flow forecast to forecast the Group's future liquidity.

The Group mainly finances its capital expenditure and operational requirements through internally generated cash flows, cash reserve, bank and other loans and finance lease.

CAPITAL COMMITMENTS

The Group's capital commitments amounted to Nil as at 30 June 2019 (31 December 2018: Nil).

PLEDGE OF ASSETS

At 31 December 2018, time deposits of RMB92,900,000 have been pledged for bank loans of a third party supplier of the Group amounting to RMB88,000,000, which were fully repaid by the borrower during the six months ended 30 June 2019 and the corresponding time deposits pledges have been released at the same time.

At 30 June 2019, the Group's property, plant and equipment, investment properties and right-of-use assets with a carrying amount of about RMB114.1 million (31 December 2018: RMB58.5 million) were pledged to banks for bank borrowings.

CONTINGENT LIABILITIES

At 30 June 2019, the Company provided a corporate guarantee for a long-term other loan of Hebei Kuaiyou Wood Products Manufacturing Co., Ltd. ("河北快優木製品製造有限公司"), a major customer of the Group, amounting to RMB50.0 million. This loan will be expired in June 2020 and the guarantee to this customer will be released at the same time.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group had no material acquisitions or disposals of subsidiaries, associates or joint ventures during the six months ended 30 June 2019.

CAPITAL STRUCTURE

There has been no change in the capital structure of the Group during the six months ended 30 June 2019. The capital of the Group only comprises ordinary shares.

SIGNIFICANT INVESTMENTS

There was no significant investment held by the Group as at 30 June 2019 (31 December 2018: Nil).

Management Discussions and Analysis

FOREIGN CURRENCY EXPOSURE

During the six months ended 30 June 2019, the Group's monetary assets and transactions were mainly denominated in RMB and Hong Kong Dollars ("**HK$**"). The management of the Group noted the recent fluctuation in the exchange rate between RMB and HK$, and is of the opinion that it does not currently have a material adverse impact on the Group's financial position. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

EMPLOYEES AND EMOLUMENT POLICY

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

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

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

As at 30 June 2019, the Group employed 169 employees, the total staff costs for the six months ended 30 June 2019 amounted to RMB8.4 million (2018: RMB7.8 million).

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

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

As at 30 June 2019, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as follows:

(i) The Company

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

(ii) Associated corporation of the Company

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

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

Save as disclosed above, as at 30 June 2019, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2019, the following persons (other than Directors or chief executives of the Company) were interested in 5% or more of the issued shares of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules on the Stock Exchange:

Name of Shareholder	Nature of interest	Number of Shares held	Approximate percentage of shareholding in the Company
Brilliant Plan *(Note)*	Beneficial Owner	673,250,000	67.3%

Note:

The entire issued share capital of Brilliant Plan is beneficially owned by Ms. Yim Tsun who is deemed to be interested in the Shares held by Brilliant Plan under the SFO.

Save as disclosed above, as at 30 June 2019, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

COMPETING INTEREST OF DIRECTORS, CONTROLLING SHAREHOLDERS AND THEIR RESPECTIVE CLOSE ASSOCIATES

As at 30 June 2019, none of the Directors, controlling shareholders of the Company or any of their respective close associates had any business or interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

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

Expect for the disclosure in Note 22(b), neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2019.

CORPORATE GOVERNANCE PRACTICES

The Board is of the view that the Company has complied with all applicable code provisions set out in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE LISTED ISSUERS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct governing dealings by all Directors in the securities of the Company on terms no less exacting than the required standard of dealings as set out in the Listing Rules. Specific enquiries have been made with all Directors, who have confirmed that, during the six months ended 30 June 2019, they were in compliance with the required provisions set out in the Model Code. All Directors declared that they have complied with the required standard of dealings as set out in the Model Code throughout the six months ended 30 June 2019.

DIVIDENDS

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2019 (2018: Nil).

DIRECTORS' INTERESTS IN CONTRACTS

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 period or at any time during the six months ended 30 June 2019.

AUDIT COMMITTEE

The Company has established its audit committee on 20 December 2013 with terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process, risk management and internal control systems of the Group. The audit committee has three members comprising the Company's three independent non-executive Directors, namely Mr. Lau Ying Kit, Mr. Pu Junwen and Mr. Zhang Dali. The chairman of the audit committee is Mr. Lau Ying Kit. The audit committee has reviewed the unaudited consolidated financial statements of the Group for the six months ended 30 June 2019.

The unaudited interim financial information of the Company for the six months ended 30 June 2019 is derived from the unaudited interim financial report of the Company, which has been reviewed by the Company's external auditor, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants.

EVENT AFTER THE REPORTING PERIOD

No significant events took place subsequent to 30 June 2019.

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

Hong Kong, 28 August 2019

As at the date of this report, 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 report is prepared in both English and Chinese. In the event of inconsistency, the English text of the report shall prevail over the Chinese text.

* *For identification purpose only*