Da Sen Holdings Group Limited
大森控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1580)

ANNOUNCEMENT OF RESULT FOR THE YEAR ENDED 31 DECEMBER 2018

The Board hereby announces results of the Group for the year ended 31 December 2018.

FINANCIAL HIGHLIGHTS

	2018	2017	**Change**
	RMB'000	*RMB'000*	
Revenue	**435,664**	499,563	(12.8%)
Gross profit	**55,493**	97,251	(42.9%)
Gross profit margin	**12.7%**	19.5%	
Total comprehensive income attributable to the shareholders of the Company	**19,273**	50,143	(61.6%)
Earnings per share (basic and diluted)	**2.15 cents**	6.59 cents	(67.4%)
Dividend proposed in respect of the year	**—**	—	

In this announcement, unless the context otherwise requires, the following terms shall have the meanings set out below:

"Board"	*The board of Directors*
"China" or "PRC"	*The People's Republic of China and, except where the context requires and only for the purpose of this announcement, references to China do not include Taiwan, the Hong Kong Special Administrative Region of the PRC or the Macao Special Administrative Region of the PRC*
"Company"	*Da Sen Holdings Group Limited*
"Director(s)"	*Director(s) of the Company*
"Group"	*The Company and its subsidiaries*
"HK$"	*Hong Kong dollars, the lawful currency of Hong Kong*
"RMB"	*Renminbi Yuan, the lawful currency of the PRC*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

The Group's principal business is the manufacture and sale of plywood products and biomass wood pellets (木製生物質顆粒) in China, and both of which are made from wood. The Group's plywood products are mainly made of poplars while the Group uses wood residues (also known as sanshengwu (三剩物)) to produce biomass wood pellets.

The Group is strategically located in Heze City, Shandong Province in China for close access to the local abundant supply of poplars, being the Group's principal raw materials. The Group also fully utilises raw materials and automated production lines to control the production costs and maintain a high environmental protection standard. The Group's current management team emphasises stringent quality control in both plywood products and biomass wood pellets, raising the recognition among the customers continuously, making huge contribution to the business growth of the Group.

Plywood products

The Group's plywood products consist of furniture board (家具板), ecological plywood (生態板) (also known as melamine faced board (三聚氰胺貼面板)) and hardwood multi-layered board (實木多層板), which are mainly made of poplar. Customers usually use the Group's plywood products as materials for interior decoration or furniture making, and some customers trade the Group's plywood products to their downstream customers. Those three types of plywood products serve similar functions to customers of the Group and the main differences are on certain specifications, such as the level of moisture content, the hardness and the water resistance capability. The total revenue of the Group is mainly contributed by the sales of plywood products, which accounted for approximately 86.9% of the total revenue for the year ended 31 December 2018.

Given the strategic location of the production base of the Group in Heze City, Shandong Province in China, there have been abundant resources of poplars, which provides a solid supply bases for the Group's manufacture of plywood products on a sustainable basis.

Customers of the Group's plywood products are mainly end users, such as furniture manufacturers, equipment manufacturers, decoration or renovation companies and packing material producers, and there are also some trading companies sourcing plywood products from the Group for on-selling to their downstream customers with or without processing. Most customers of the Group's plywood products are located at Eastern China and Southern China regions. The Group maintains a large customer base for the plywood products and there were totally 117 customers of plywood products for the year ended 31 December 2018, out of which the five largest customers contributed for less than 35% of the total revenue of plywood products.

Biomass wood pellets
The Group produces biomass wood pellets using wood residues (also known as sanshengwu (三剩物)). Biomass wood pellets is a relatively cleaner fuel as compared with other traditional forms of fuel, such as coal. Biomass wood pellets also have competitive edge in transport, storage, combustibility and emission as compared to traditional fuel due to its solid nature and its smaller size. Biomass wood pellets contains zero sulfate and phosphorous, therefore no pollution gas and contents would be released after burning. These enable biomass wood pellets to become the symbol of new generation fuel. Customers usually use the Group's biomass wood pellets as fuel to generate energy or trade to their downstream customers.

The Group uses wood residues as raw materials to produce biomass wood pellets. The Group first utilise the wood residues generated internally during the production process of plywood products. Those internally generated wood residues brings synergy effect to the Group as free supply of raw materials for producing biomass wood pellets. The Group then sources wood residues locally from wood product manufacturers nearby after using up all internally generated wood residues. Given Heze City, Shandong Province in China has abundant resources of poplars, there are a large number of wood product manufacturers and therefore the supply of wood residues are also sufficient and at lower costs for the Group's production of biomass wood pellets.

Customers of the Group's biomass wood pellets are mainly end users and there are only limited number of trading companies sourcing biomass wood pellets from the Group for on-selling to their downstream customers. Most customers of the Group's biomass wood pellets are located at Eastern China and Southern China regions. The Group maintains a diversified customer base for the biomass wood pellets and there were totally 46 customers of biomass wood pellets for the year ended 31 December 2018, out of which the five largest customers contributed for less than 45% of the total revenue of biomass wood pellets.

RECENT DEVELOPMENT

There has been delay in the construction of new production plants over the past year due to the delay in obtaining the State-owned Land Use certificate for certain pieces of lands identified by the Company. No construction of production plants is allowed until the State-owned Land Use certificate is obtained. The Company's subsidiaries recently have progress in the procedures of applying for the State-owned Land Use certificate and the Directors expect that the construction of production plants will be commenced in the foreseeable future.

OUTLOOK

The Central People's Government has recently taken a number of environmental measures against the pollution in PRC. Those measures have given challenges to the manufacturing industry in the PRC as a result of more stringent requirements on the manufacturing process, which results in a higher production cost for the manufacturing companies. It also has impact to the Group's suppliers as well, in particular the small suppliers of our plywood products. Consequently, the Group has a lower gross profit margin for the year ended 31 December 2018 for both plywood products and biomass wood pellets. Management of the Group expects that those environmental measures will sustain and the Group will face a similar level of pressure on the gross profit margins in the foreseeable future.

In addition to the increasing cost of production for the Group's products, the Group is also facing a competitive market for the sales of the Group's products. The Group's products are solely for domestic consumption so far and therefore the sales performance of the Group's products are highly influenced by China's economy. The Group's plywood products and biomass wood pellets are considered as raw materials for production by domestic manufacturers. Given those manufacturers are facing uncertainty on the market growth, they are more conservative on their production plans and also adopt cost saving strategy on procurement of raw materials. Accordingly, the Group finds difficulties to raise the selling price of the Group's products to shift the increasing production costs to those manufacturers being the Group's customers. Despite the Group's biomass wood pellets is considered as one of the clean and new alternative energy sources which fit in the recent environmental policy of the Central People's Government of the PRC, its increasing production cost and delivery cost as compared to other traditional energy sources have become hurdles to the potential buyers. Directors have changed to be more conservative on the potential growth of the market for the Group's biomass wood pellets in the foreseeable future.

FINANCIAL REVIEW

Revenue

During the year ended 31 December 2018, the Group had a drop in revenue of approximately 12.8%, from approximately RMB499.6 million for the year ended 31 December 2017 to approximately RMB435.7 million for the year ended 31 December 2018.

There is a drop in the sales of both plywood products and biomass wood pellets for the year ended 31 December 2018 as compared to the year ended 31 December 2017.

Revenue arising from sales of plywood products dropped from approximately RMB401.2 million for the year ended 31 December 2017 to approximately RMB378.7 million for the year ended 31 December 2018, representing a drop of approximately 5.6%. Such decrease in sales was mainly due to a more keen competition for plywood products as a result of the slowdown in the economic growth in China.

The sales of the Group's biomass wood pellets for the year ended 31 December 2018 dropped to approximately RMB56.9 million from approximately RMB98.4 million for the year ended 31 December 2017, representing a drop of approximately 42.1%. Such decrease in sales was mainly due to a higher cost consciousness on energy source of the manufacturers in order to maintain the gross margin of their products in such economic slowdown environment.

Gross profit

The overall gross profit margin of the Group dropped for the year ended 31 December 2018, changing from approximately 19.5% for the year ended 31 December 2017 to approximately 12.7% for the year ended 31 December 2018. The decrease in gross profit margin was mainly due to the higher production cost incurred as a result of more stringent environmental policies adopted by the Central People's Government and also higher purchase costs for raw materials during the year ended 31 December 2018.

Other income

Other income of the Group mainly represented income earned from refund of value-added tax arising from the sales of the biomass wood pellets, which is according to the policy erected by the State Administration of Taxation of the PRC for saving scarce natural resources and protecting the environment, and also income from sales of poplar core being the residuals generated from the production of the Group's plywood products.

Decrease in other income during the year ended 31 December 2018 was mainly due to less refund of value-added tax received during the year ended 31 December 2018. Since the Group incurred additional production cost during the year ended 31 December 2018, the gross profit margin for the biomass wood pellets dropped and accordingly, less value-added tax was paid for the production and sales of the biomass wood pellets, resulting in less refund of value-added tax received during the year ended 31 December 2018.

Selling and distribution expenses

There was a decrease of approximately RMB0.7 million in selling and distribution expenses for the year ended 31 December 2018, changing from approximately RMB1.6 million for the year ended 31 December 2017 to approximately RMB0.9 million for the year ended 31 December 2018. There were setup costs incurred for the new sales office in Fujian province of the PRC during the year ended 31 December 2017 resulting in higher selling and distribution expenses for the year ended 31 December 2017.

Administrative expenses

There was an increase of approximately RMB2.4 million in administrative expenses for the year ended 31 December 2018, increasing from approximately RMB23.8 million for the year ended 31 December 2017 to approximately RMB26.2 million for the year ended 31 December 2018. Such increase was mainly due to the followings: (i) the increased Directors' remuneration of approximately RMB1.4 million granted to the executive Directors for the year ended 31 December 2018; and (ii) the increased spending on research and development function of approximately RMB1.0 million for the year ended 31 December 2018.

Net impairment losses on financial assets

Balance represented impairment losses for trade receivables recorded during the year. Since there has been a slowdown on settlements by trade debtors during the year ended 31 December 2018, an additional impairment loss for trade receivables of approximately RMB1.6 million was recorded.

Net finance costs

There was an increase in net finance costs of approximately RMB1.4 million for the year ended 31 December 2018, increasing from approximately RMB4.4 million for the year ended 31 December 2017 to approximately RMB5.8 million for the year ended 31 December 2018. Such increase in the finance costs was mainly due to the net effects of the followings: (i) the increase in net foreign exchange loss arising from the borrowings denominated in HK$ of approximately RMB2.3 million as a result of the depreciation of RMB against HK$ during the year ended 31 December 2018; (ii) less interests charged by local financial institutions in PRC of approximately RMB1.8 million due to less average bank borrowings during the year ended 31 December 2018; and (iii) the increase in finance costs of approximately RMB1.0 million incurred for bonds as a result of higher average outstanding amount of bonds issued during the year ended 31 December 2018.

Income tax expense

There was a decrease of approximately RMB11.9 million in the income tax expenses for the year ended 31 December 2018, decreasing from approximately RMB19.2 million for the year ended 31 December 2017 to approximately RMB7.3 million for the year ended 31 December 2018, which was mainly due to the decrease in the operating profits earned in China for the year ended 31 December 2018.

The overall effective tax rate of the Group remained at a similar level for the year ended 31 December 2018. The Group's effective tax rate for the year ended 31 December 2018 is approximately 27.6% (2017: 27.7%).

Total comprehensive income attributable to shareholders

There was a decrease of approximately 61.6% in the total comprehensive income attributable to shareholders of the Company for the year ended 31 December 2018, from approximately RMB50.1 million for the year ended 31 December 2017 to approximately RMB19.3 million for the year ended 31 December 2018, which was mainly due to the decrease in the gross profit margins of both plywood products and biomass wood pellets for the year ended 31 December 2018.

Property, plant and equipment

During the year ended 31 December 2018, the Group has contributed approximately RMB1.3 million in construction of a number of new production facilities in Heze city, Shandong Province in China, where our existing production facilities are located, for the production of plywood products.

As at 31 December 2018, items of property, plant and equipment with carrying amount of approximately RMB54.2 million were pledged to the financial institutions in favour of some of the bank borrowings advanced to the Group.

Inventories

The Group's inventory balances as at 31 December 2018 comprised raw materials, work-in-progress and finished goods for both plywood products and biomass wood pellets. Increase in the inventory balance of approximately RMB19.0 million, from approximately RMB89.0 million as at 31 December 2017 to approximately RMB108.0 million as at 31 December 2018, was mainly due to more work in progress and finished goods of plywood products as at 31 December 2018 due to the purchase orders received by the end of December 2018 and the estimated sales in the first quarter of 2019.

Trade receivables

Trade receivables balance as at 31 December 2018 mainly represented outstanding balance from customers of our plywood products. There was an increase in trade receivables balance before provision for impairment of approximately RMB42.3 million, from approximately RMB153.2 million as at 31 December 2017 to approximately RMB195.5 million as at 31 December 2018. The increase in trade receivables balance was mainly due to delay in settlement from customers, which mainly resulted from the slowdown of the PRC's economic growth during the year ended 31 December 2018.

Given the Group has recorded an increase of trade receivable balance as at 31 December 2018, a specific impairment assessment has been performed to most of the Group's major customers, and accordingly, approximately RMB7.8 million of provision for impairment of trade receivable balances was recorded as at 31 December 2018.

Cash and cash equivalents

There was a decrease in the balance of cash and cash equivalents of approximately RMB26.0 million from approximately RMB74.3 million as at 31 December 2017 to approximately RMB48.3 million as at 31 December 2018. The decrease in cash and cash equivalents balance was mainly due to the payments for purchase of raw materials resulting in an increase in the inventory level (mainly the work-in-progress) of approximately RMB19.0 million and also the capital investment of approximately RMB2.8 million on land use rights and production plants for the expansion of the production facilities for the plywood products.

Borrowings

The source of debt financing of the Group was mainly from banks and individual bondholders.

As at 31 December 2018, the Group had bank borrowings of RMB41 million advanced from banks located in China, increasing from RMB27 million as at 31 December 2017. All of the bank borrowings were current in nature and subject to renewal upon maturity. Certain items of property, plant and equipment and also the land use rights with carrying amounts of approximately RMB22.4 million were pledged to the banks to secure the bank borrowings advanced to the Group.

In addition to the bank borrowings, the Group has issued long-term straight bonds to some individuals as another channel of financing to the Group. As at 31 December 2018, the Group has outstanding bonds with a total principal amount of approximately RMB28.9 million. The maturity periods of the bonds issued by the Group range from six months to 7.5 years. The Group considers them as a supplement to the Group's short-term borrowings to support the Group's long-term expansion.

All of the borrowings were arranged at fixed interest rates.

FINANCIAL INFORMATION

Consolidated statement of comprehensive income
For the year ended 31 December 2018

	Notes	**2018**	2017
		RMB'000	*RMB'000*
Revenue	*3*	**435,664**	499,563
Cost of sales		**(380,171)**	(402,312)
Gross profit		**55,493**	97,251
Selling and distribution expenses		**(861)**	(1,603)
Administrative expenses		**(26,190)**	(23,778)
Net impairment losses on financial assets		**(1,590)**	(3,540)
Other income	*4*	**5,957**	7,965
Other losses — net	*5*	**(356)**	(2,494)
Operating profit		**32,453**	73,801
Finance income		**9**	1,051
Finance costs		**(5,840)**	(5,489)
Finance costs — net	*7*	**(5,831)**	(4,438)
Profit before income tax		**26,622**	69,363
Income tax expense	*8*	**(7,349)**	(19,220)
Profit for the year		**19,273**	50,143
Other comprehensive income		**—**	—
Total comprehensive income for the year and attributable to the shareholders of the Company		**19,273**	50,143
Earnings per share for profit attributable to the shareholders of the Company during the year (expressed in RMB cents per share)			
— Basic and diluted	*9*	**2.15**	6.59

Consolidated balance sheet
As at 31 December 2018

	Notes	**2018** *RMB'000*	2017 *RMB'000*
Assets			
Non-current assets			
Land use rights		**24,549**	25,106
Property, plant and equipment		**161,089**	164,417
Deferred income tax assets		**1,707**	920
Prepayment	*11*	**5,939**	3,150
		193,284	193,593
Current assets			
Inventories	*10*	**107,990**	88,955
Trade and other receivables	*11*	**193,743**	159,572
Cash and cash equivalents		**48,298**	74,263
		350,031	322,790
Total assets		**543,315**	516,383
Equity and liabilities			
Equity attributable to the shareholders of the Company			
Share capital	*12*	**7,906**	7,906
Share premium	*12*	**185,321**	185,321
Other reserves	*13*	**52,942**	50,888
Retained earnings		**206,118**	188,899
Total equity		**452,287**	433,014
Liabilities			
Non-current liabilities			
Borrowings	*14*	**23,847**	22,709
Deferred income		**369**	393
Deferred income tax liabilities		**506**	26
		24,722	23,128

	Notes	**2018** *RMB'000*	2017 *RMB'000*
Current liabilities			
Trade and other payables	*15*	**12,653**	17,634
Current income tax liabilities		**8,274**	14,998
Borrowings	*14*	**45,379**	27,609
		66,306	60,241
Total liabilities		**91,028**	83,369
Total equity and liabilities		**543,315**	516,383

Notes

1. GENERAL INFORMATION

The Group is principally engaged in the manufacturing and sales of plywood and biomass wood pellets in Heze, Shandong Province, the PRC.

The Company is a limited liability company incorporated in Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. box 2681, Grand Cayman KY1-1111, Cayman Islands.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(i) Basis of preparation

Compliance with International Financial Reporting Standards and Hong Kong Companies Ordinance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance.

Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except that certain financial assets and liabilities, which are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method.

The financial information presented in this announcement was extracted from the Group's consolidated financial statements for the year ended 31 December 2018.

(ii) Changes in accounting policy and disclosures

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2
- Annual Improvements 2014–2016 cycle
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Group had to change its accounting policies and make certain adjustments following the adoption of IFRS 9. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(ii) Changes in accounting policy and disclosures (continued)

IFRS 9 was generally adopted without restating comparative information. The Group used modified retrospective approach while adopting IFRS 9. The adjustments arising from the new impairment rules are therefore not reflected in the consolidated balance sheet as at 31 December 2017, but are recognised in the consolidated balance sheet on 1 January 2018.

The Group adopted IFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as at 1 January 2018 and these comparatives will not be restated.

The adoption of IFRS 9 and IFRS 15 did not result in an adjustment to retained earnings as at 1 January 2018, and there is no material impact on the consolidated statement of comprehensive income by adopting IFRS 9 and IFRS 15.

IFRS 9, Financial Instruments — impact of adoption

IFRS 9 was generally adopted without restating any comparative information. The adjustments arising from the new impairment rules are therefore not reflected in the restated consolidated balance sheet as at 31 December 2017, but are recognized in the opening consolidated balance sheet on 1 January 2018.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

There is no significant impact on the classification and measurement of its financial assets as the Group does not have:

- Debt instruments that are classified as available-for-sale financial assets;
- Debt instruments classified as held-to-maturity and measured at amortised cost;
- Equity investment measured at fair value through profit or loss

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities which are subject to IFRS 9.

The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The Group has trade receivables for sales of products that are subject to IFRS 9's new expected credit loss model, and the Group revised its impairment methodology under IFRS 9 for these receivables.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(ii) Changes in accounting policy and disclosures (continued)

IFRS 9, Financial Instruments — impact of adoption (continued)

Based on the assessments undertaken, no further loss allowance for trade receivables as at 31 December 2017 was identified by the Group, and therefore, no adjustment on opening loss allowance as at 1 January 2018 was required.

While cash and cash equivalents and other receivables are also subject to the impairment requirements of IFRS 9, no material impairment loss was identified.

IFRS 9, Financial Instruments — Accounting policies applied from 1 January 2018

Financial assets — impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the modified retrospective approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

IFRS 15 Revenue from Contracts with Customers — Impact of adoption

The Group adopted IFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) was recognised in retained earnings as at 1 January 2018 and that comparative figures were not be restated.

The Group's obligations to provide a refund for faulty products are under the standard warranty terms. Accumulated experience is used to estimate such returns at the time of sale. Because of the large variety and low value of each individual product, the amount of products returned were immaterial. It is highly probable that a significant reversal in the cumulative revenue recognised will not occur. Therefore, no refund liability for goods return was recognized. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

The Group did not introduce any customer loyalty programme or volume discounts based on aggregate sales over a period time.

The Group does not incur costs to fulfil a contract which should be capitalized as they relate directly to the contract, generate resources used in satisfying the contract and are expected to be recovered.

The Group does not have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

As a result, the adoption of IFRS 15 did not result in any net impact on the profit for the period as the timing of revenue recognition on sales of products is not changed.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(ii) Changes in accounting policy and disclosures (continued)

IFRS 15 Revenue from Contracts with Customers — Accounting policies applied from 1 January 2018

Revenue Recognition

The Group manufactures and sells plywood and biomass wood pellets in the market.

Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been picked up by carriers designated by customer. The risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognised when the goods are picked up by carriers designated by customer as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(iii) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 16 Leases

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the consolidated balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB1,037,000. The Group expects to recognise right-of-use assets of approximately RMB990,000 on 1 January 2019, lease liabilities of RMB1,037,000 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018).

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(iii) New standards and interpretations not yet adopted (continued)

IFRS 16 Leases (continued)

Impact (continued)

However, the Group is in the progress of assessing what other adjustments, if any, are necessary for example because of the different treatment of variable lease payments and of extension and termination options, and the identification of other arrangements that are subject to the new rules. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Date of adoption by Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

Apart from IFRS 16, there are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3. REVENUE

The revenue of the Group for the year ended 31 December 2018 is set out as follows:

	Years ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Sales of plywood	**378,729**	401,176
Sales of biomass wood pellets	**56,935**	98,387
	435,664	499,563

4. OTHER INCOME

	Years ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Sales of plywood core	**2,991**	3,626
Refund of value added tax ("VAT") *(Note)*	**2,692**	4,285
Government grants related to expenses	**250**	—
Amortisation of deferred income related to government grants	**24**	24
Others	**—**	30
	5,957	7,965

Note: Pursuant to the approval by the Economic and Information Technology Committee of Shandong Province, a subsidiary of the Group in the manufacture of biomass wood pellets was entitled to VAT refund of its sales of products which involves comprehensive utilisation of resources.

5. OTHER LOSSES — NET

	Years ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Net foreign exchange losses	**294**	2,366
Donations	**5**	85
Net gain on disposal of property, plant and equipment	**—**	(14)
Others	**57**	57
	356	2,494

6. EXPENSES BY NATURE

	Years ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Changes in inventories of finished goods and work-in-progress	**(23,986)**	(20,804)
Raw materials and consumables used	**382,620**	397,894
Employee benefit expenses	**28,001**	26,761
Depreciation and amortisation	**6,406**	6,243
Utilities	**4,971**	6,053
Taxes and levies	**3,133**	3,540
Audit service	**1,700**	1,902
Other expenses	**4,377**	6,104
Total cost of sales, selling and distribution expenses and administrative expenses	**407,222**	427,693

7. FINANCE INCOME AND COSTS

	Years ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Finance income:		
— Interest income on bank deposits	**(9)**	(17)
— Net foreign exchange gains on financing activities	**—**	(1,034)
Subtotal	**(9)**	(1,051)
Finance costs:		
— Interest expense on borrowings from banks	**2,956**	4,731
— Interest expense on bonds	**1,697**	737
— Net foreign exchange losses on financing activities	**1,187**	—
— Interest expense on finance leases	**—**	21
Subtotal	**5,840**	5,489
Net finance costs	**5,831**	4,438

8. INCOME TAX EXPENSE

	Years ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current income tax	**7,656**	19,043
Deferred income tax	**(307)**	177
Total income tax expense	**7,349**	19,220

(i) Cayman Islands profit tax

The Company is not subject to any taxation in the Cayman Islands.

(ii) British Virgin Islands profits tax

The Company's subsidiary in the British Virgin Islands ("BVI") is exempted from BVI income tax, as it is incorporated under the International Business Companies Act of the BVI.

(iii) Hong Kong profits tax

No Hong Kong profits tax has been provided, as the Group has no taxable profit earned or derived in Hong Kong. The applicable Hong Kong profit tax rate is 16.5% (2017: 16.5%) for the year.

8. **INCOME TAX EXPENSE (continued)**

(iv) PRC corporate income tax ("CIT")

CIT is provided on the assessable income of entities within the Group incorporated in the PRC. The applicable CIT tax rate is 25% (2017: 25%) for the year.

(v) PRC withholding income tax

According to the new CIT Law, a 10% withholding tax will be levied on the immediate holding companies established out of the PRC. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding companies. During the year, no withholding tax has been provided as the Directors have confirmed that the Group does not expect the PRC subsidiaries to distribute the retained earnings as at 31 December 2018 in the foreseeable future.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the consolidated entities as follows:

	Years ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit before income tax	**26,622**	69,363
Tax calculated at domestic tax rates applicable to profits in the respective year	**6,656**	17,341
Tax effects of:		
— Expenses not deductible for tax purpose	**1,063**	2,671
— Income not subject to tax	**(1,196)**	(1,395)
— Unrecognised tax losses	**826**	603
Tax charge	**7,349**	19,220

9. EARNINGS PER SHARE

(a) Basic

Basic earnings per share for the years ended 31 December 2018 and 2017 are calculated by dividing the profit attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	Years ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit attributable to the shareholders	**19,273**	50,143
Weighted average number of ordinary shares in issue (thousands)	**896,400**	760,547
Basic earnings per share (RMB cents per share)	**2.15**	6.59

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

During the years ended 31 December 2018 and 2017, the diluted earnings per share are equal to basic earnings per share, as there were no instruments outstanding that could have a dilutive effect on the Company's ordinary shares.

10. INVENTORIES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Raw materials	**28,459**	33,410
Work-in-progress	**36,581**	15,236
Finished goods	**42,950**	40,309
	107,990	88,955

11. TRADE AND OTHER RECEIVABLES

	As at 31 December 2018 *RMB'000*	2017 *RMB'000*
Trade receivables	**195,495**	153,180
Less: Provision for impairment	**(7,822)**	(6,232)
Trade receivables — net	**187,673**	146,948
Prepayments		
— Prepayments for raw materials	**5,067**	11,669
— Prepayments for land use rights	**5,939**	3,150
Other receivables	**1,003**	955
	199,682	162,722
Less: Prepayment (non-current)	**(5,939)**	(3,150)
	193,743	159,572

As at 31 December 2018 and 2017 the aging analysis of the trade receivables based on invoice date was as follows:

	As at 31 December 2018 *RMB'000*	2017 *RMB'000*
Up to 3 months	**116,517**	91,577
4 to 6 months	**47,059**	29,266
7 to 12 months	**9,429**	26,044
Over 1 year	**22,490**	6,293
	195,495	153,180

The Group has a large number of customers, mainly in Fujian Province, Guangdong Province and Zhejiang Province. There is no concentration of credit risk with respect to trade receivables. Majority of the Group's sales are with credit terms. Major customers with good repayment history are normally offered credit terms of no more than six months.

The Group applies the IFRS 9 modified retrospective approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. No further loss allowance was recognised on 1 January 2018 for trade receivables.

The carrying amounts of the Group's trade and other receivables were mainly denominated in RMB and approximated their fair values as at the balance sheet dates. The maximum exposure to credit risk at the reporting date is the carrying value of receivable mentioned above. The Group does not hold any collateral as security.

12. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares *'000*	Amount: Share capital *RMB'000*	Amount: Share premium *RMB'000*	Amount: Total *RMB'000*
At 1 January 2017	720,000	6,393	95,750	102,143
Issue of shares via exercising over-allotment option (a)	27,000	242	15,262	15,504
Placing of new shares (b)	149,400	1,271	74,309	75,580
At 31 December 2017, 1 January 2018 and 31 December 2018	896,400	7,906	185,321	193,227

Notes:

(a) On 6 January 2017, an aggregate of 27,000,000 shares of the Company were issued at a price of HK$0.70 pursuant to the exercise of an over-allotment option in connection with the initial public offering of the shares of the Company in December 2016. The gross proceeds raised was HK$18,900,000 (approximately RMB16,907,000). The transaction costs of RMB1,403,000 were debited to the share premium account.

(b) On 28 November 2017, 149,400,000 shares of the Company were issued at a price of HK$0.60. The gross proceeds raised was HK$89,640,000 (approximately RMB75,777,000). The transaction costs of RMB197,000 were debited to the share premium account.

The total number of authorised share capital of the Company comprised 1,000,000,000 ordinary shares with a par value of HK$0.01 each as at 31 December 2018 and 2017.

13. OTHER RESERVES

	Capital reserves (a) *RMB'000*	Statutory reserves (b) *RMB'000*	Total *RMB'000*
At 1 January 2017	26,889	18,237	45,126
Profit appropriation to statutory reserves	—	5,762	5,762
At 31 December 2017	26,889	23,999	50,888
Profit appropriation to statutory reserves	—	2,054	2,054
At 31 December 2018	26,889	26,053	52,942

(a) Capital reserves

The capital reserves represent the capital injection to Heroic Group Limited and its subsidiaries by the foundings shareholders in prior years.

13. OTHER RESERVES (continued)

(b) Statutory reserves

Statutory reserves represent statutory surplus reserve of the subsidiary companies in the PRC. The Company's subsidiaries incorporated in the PRC are required to make appropriations to statutory reserves from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under the PRC accounting regulations and before distribution to shareholders. The percentages to be appropriated to such statutory reserve are determined according to the relevant regulations in the PRC at rate of 10% or at the discretion of the board of Directors of the PRC subsidiaries, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares, provided that the balance of such reserve is not less than 25% of the entity's registered capital after the bonus issue.

14. BORROWINGS

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Non-current		
Bonds (a)	**23,847**	22,709
Current		
Bonds within one year (a)	**4,379**	609
Short-term bank borrowings — secured (b)	**41,000**	27,000
	45,379	27,609
Total borrowings	**69,226**	50,318

(a) Bonds:

During the year ended 31 December 2018, the Company issued a short-term bond at a total par value of HK$5,000,000 (equivalent of RMB 4,439,000) with a fixed interest rate of 15% per annum. The bonds will mature in 6 months.

During the year ended 31 December 2017, the Company issued long-term bonds at a total par value of HK$28,000,000 (equivalent to RMB23,405,000) with fixed interest rates ranging from 6% to 6.5% per annum. The bonds will mature in 3 to 7.5 years.

The fair values of the bonds approximated their carrying amounts as at the balance sheet date.

14. BORROWINGS (continued)

(a) Bonds: (continued)

As at 31 December 2018, the Group's bonds were repayable as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 1 year	**4,379**	609
Between 2 and 5 years	**8,550**	8,356
Over 5 years	**15,297**	14,353
	28,226	23,318

(b) Short-term bank borrowings

The Group's bank borrowings were secured by land use rights of the Group with net book value of RMB22,415,000 (2017: RMB22,972,000), plants of the Group with net book value of RMB54,228,000 (2017: RMB56,213,000), as at 31 December 2018. The borrowings were also supported by guarantees from related parties.

For the year ended 31 December 2018, the weighted average effective annual interest rate on borrowings from banks was 7.61% (2017: 7.80%).

The carrying amounts of the Group's borrowings from banks were denominated in RMB and approximated their fair value as at the balance sheet date.

15. TRADE AND OTHER PAYABLES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Other taxes payable	**3,586**	3,670
Employee benefit payables	**3,066**	4,587
Interest payable	**772**	—
Advances from customers	**465**	827
Trade payables	**282**	4,916
Others	**4,482**	3,634
	12,653	17,634

As at 31 December 2018 and 2017 the aging analysis of the trade payables based on invoice date is as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**282**	4,864
4 to 6 months	**—**	52
	282	4,916

The carrying amounts of the Group's trade and other payables approximated their fair values as at the balance sheet date and were mainly denominated in RMB.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018.

CORPORATE GOVERNANCE

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the year ended 31 December 2018.

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

Neither the Company nor any of the subsidiaries of the Company purchased, redeemed or sold the listed securities of the Company during the year ended 31 December 2018.

SCOPE OF WORK OF AUDITOR

The financial information presented in this announcement has been agreed by PricewaterhouseCoopers, the Company's independent auditors, to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2018, which has been audited by PricewaterhouseCoopers. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

REVIEW BY THE AUDIT COMMITTEE

The annual results of the Company for the year ended 31 December 2018 has been reviewed by the audit committee of the Company.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held in Hong Kong on Friday, 24 May 2019. The notice of the annual general meeting will be issued and despatched in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 21 May 2019 to Friday, 24 May 2019, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the annual general meeting. In order to be entitled to attend and vote at the annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with Computershare Hong Kong Investor Services Limited, the Company's Hong Kong branch share registrar, at Shops 1712–1716, 17th Floor, Hopewell Centre, No. 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Monday, 20 May 2019.

By order of the Board
Da Sen Holdings Group Limited
KE Mingcai
Chairman and executive Director

Hong Kong, 29 March 2019

As at the date of this announcement, the executive Directors are Mr. KE Mingcai, Mr. WANG Songmao, Mr. ZHANG Ayang and Mr. WU Shican; and the independent non-executive Directors are Mr. LIN Triomphe Zheng, Mr. SHAO Wanlei and Mr. WANG Yuzhao.