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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 2016

The board of directors (the “**Board**”) of Da Sen Holdings Group Limited (the “**Company**”) hereby announces results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2016.

FINANCIAL HIGHLIGHTS	2016	2015	Change
	RMB'000	RMB'000	
Revenue	466,118	380,860	22.4%
Gross profit	106,149	83,490	27.1%
Gross profit margin	22.8%	21.9%	
Total comprehensive income attributable to shareholders of the Company	53,231	45,222	17.7%
Earnings per share (basic and diluted)	9.74 cents	8.37 cents	16.3%
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:

“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 People’s Republic of China or the Macao Special Administrative Region of the People’s Republic of China

“HK\$”

Hong Kong dollars, the lawful currency of Hong Kong

“RMB”

Renminbi Yuan, the lawful currency of the PRC

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

Plywood products

The supply of poplar plywood in China increased at a compound annual growth rate (“CAGR”) of approximately 19.9% from year 2010 to year 2015, and is expected to increase at a CAGR of approximately 11.1% till year 2019. Shandong Province, where the Group’s production base is located, is the largest poplar plywood supply region among all the provinces abundant in poplar resources, which contributed approximately 39.9% of the total production volume of poplar plywood in China in year 2015. As of the end of year 2015, there were approximately 4,000 plywood manufacturers in China, with the Group taking approximately 0.10% of the share of total industry revenue and ranking the fourth for year 2015.

Biomass wood pellets

The market value of biomass wood pellets in China has been growing at approximately 50.5% from year 2010 to year 2015. The constant growth of market value of biomass wood pellets is largely driven by governmental support on the industry. It is expected that most coal boilers in first-tier and second-tier cities in China will be replaced by biomass boilers by year 2017. For the year ended 31 December 2015, the top five biomass wood pellets manufacturers in China accounted for approximately 1.92% of total market value in the industry, with the Group taking approximately 1.26% of the share of total industry revenue and ranking the first.

BUSINESS REVIEW

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 emphasizes 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 78.0% of the total revenue for the year ended 31 December 2016.

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. In addition, the Group is one of the major customers in purchasing wood-based raw materials in Heze City, Shandong Province. Accordingly, the Group enjoys a stable and relatively lower cost of raw materials for the manufacture of plywood products.

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 146 customers of plywood products for the year ended 31 December 2016, 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 96 customers of biomass wood pellets for the year ended 31 December 2016, out of which the five largest customers contributed for less than 10% of the total revenue of biomass wood pellets.

Recent development

Set up of sales offices in Shanghai and Fujian Province

Management of the Group has a view that the demand for both plywood products and biomass wood pellets in China will continue to grow. Accordingly, the Group has planned to expand the sales network by establishing sales offices in certain regions in China in addition to the sales and marketing functions maintained in Heze City, Shandong Province, the headquarter of the Group. The Group is currently in the process of setting up its first two sales office in Shanghai and Fujian Province, respectively and expects they will start operating in the second quarter of 2017.

Expansion of the peeling function in the production line for plywood products

The Group produces plywood products using plywood veneers peeled from the poplar logs. The plywood veneer can either be peeled from poplar logs by rotary lathe processed by the Group, or purchased directly from the local suppliers. In the past, the Group decided to have the production team focusing on other production processes and outsourced most of the peeling functions to the local suppliers. Considering that (i) there has been a significant increase in the production volumes of plywood products over the past years and it is more cost effective to expand internal peeling functions with the enlarged production volumes; and (ii) more wood residues can be generated in the peeling process as free supply of raw materials to the production of biomass wood pellets and such internally generated wood residues has higher quality with less foreign materials, such as stones and metal, as compared to those purchases from outside suppliers, the Group has decided to invest in expanding the peeling function of the production line for plywood products and has recently purchased some new rotary lathes which are more automated and advanced than the existing models. The Group expects such expansion would help lower the production costs for both plywood products and biomass wood pellets in the long run.

OUTLOOK

There is a trend of slowdown of economic growth in China and also the depreciation of Renminbi. Notwithstanding, management of the Group believes that there would be a stable demand for the Group's products, the plywood products in particular, because customers of the Group source the Group's products mainly for producing non-high-end products, such as furniture and equipment with medium prices, and the market demand on those products are relatively stable in spite of the gradual change in the economy. In addition, some of the Group's customers are running export businesses and management of the Group estimates that the depreciation of Renminbi would have favourable effect to the export sales of the Group's customers, resulting in an increasing demand on the Group's products for their production or consumption.

There is an understanding that China is keen on looking for clean, efficient and new alternative energy sources mainly to save the scarce natural resources and protect the environment. However, the bioenergy industry in China is still believed to be underdeveloped for the reasons of low biomass production technique, small production scale and high cost of production. Notwithstanding, management of the Group observed that there has been fast development for biomass energy in China in recent years and estimates that the development would sustain in the foreseeable future. Given the Group has already launched the biomass wood pellets, being one of the biomass energy, for a number of years and also has continuous investment in the research and development of the biomass wood pellets production, management of the Group is optimistic that the Group has competitive advantage in the quality of the products and can capture the potential growing bioenergy market in the foreseeable future.

The Group is currently in the process of setting up its first two sales offices in Shanghai and Fujian Province, respectively, and they are estimated to start operating in the second quarter of 2017. The Group secured new customers mainly through referral from existing customers and the participation in industry exhibitions to promote the Group's products in the past. Management of the Group believes that these new sales offices would facilitate the Group in reaching new pool of customers in respective regions, boosting our sales in the near future.

FINANCIAL REVIEW

Revenue

During the year ended 31 December 2016, the Group achieved an overall steady growth in revenue of approximately 22.4%, from approximately RMB380.9 million for the year ended 31 December 2015 to approximately RMB466.1 million for the year ended 31 December 2016.

The Group's plywood products had more contribution on the revenue growth of the Group for the year ended 31 December 2016. Revenue arising from sales of plywood products increased from approximately RMB284.2 million for the year ended 31 December 2015 to approximately RMB363.7 million for the year ended 31 December 2016, representing a growth rate of approximately 28.0%. Such growth was mainly because of the increased number of purchase orders from the existing customers during the year ended 31 December 2016.

There is a steady growth on the sales of the biomass wood pellets for the year ended 31 December 2016, increasing from approximately RMB96.7 million for the year ended 31 December 2015 to approximately RMB102.4 million for the year ended 31 December 2016, representing a growth rate of approximately 6.0%.

Gross profit

The overall gross profit margin of the Group maintained at a similar level for the year ended 31 December 2016, changing from approximately 21.9% for the year ended 31 December 2015 to approximately 22.8% for the year ended 31 December 2016.

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 pellet, which is according to the policy erected by the State Administration of Taxation of the People's Republic of China 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. Increase in other income is in line with the increase in sales of plywood products and biomass wood pellets.

Selling and distribution expenses

There was a decrease of approximately RMB2.0 million in selling and distribution expenses for the year ended 31 December 2016, dropping from approximately RMB2.9 million for the year ended 31 December 2015 to approximately RMB0.9 million for the year ended 31 December 2016. Such decrease was mainly due to the change in the delivery arrangement for the biomass wood pellets during the year ended 31 December 2015. In the past, the Group provided options to customers of biomass wood pellets to engage the Group to arrange delivery of biomass wood pellets to their designated locations. However, there were feedbacks from some of the customers that they had preferences in deploying their own transportation teams for a more cost effective delivery of biomass wood pellets to their designated locations. The Group therefore decided to terminate such delivery arrangements since March 2015, and accordingly, delivery expenses have been saved, resulting in a drop in the selling and distribution expenses for the year ended 31 December 2016.

Administrative expenses

There was an increase of approximately RMB14.0 million in administrative expenses for the year ended 31 December 2016, increasing from approximately RMB20.6 million for the year ended 31 December 2015 to approximately RMB34.6 million for the year ended 31 December 2016. Such increase was mainly due to the more non-recurring listing expenses incurred during the year ended 31 December 2016 in relation to the initial public offering of the shares of the Company (the "IPO"). The preparation work for the IPO commenced in 2015 and most of the work was performed during the year ended 31 December 2016, resulting an increase in listing expenses of approximately RMB5.7 million for the year ended 31 December 2016. In addition, additional research and development expenses of

approximately RMB2.5 million were incurred for the year ended 31 December 2016, increasing from approximately RMB4.5 million for the year ended 31 December 2015 to approximately RMB6.9 million for the year ended 31 December 2016, mainly to support the product testing and modifications to meet customers' needs. Apart from the above, the Group also incurred losses of approximately RMB2.7 million arising from the impairment of trade receivables. Management assessed the outstanding balances from debtors as at 31 December 2016 and after considering, amongst others, the financial strength of the debtors, the number of days outstanding for the balance and also the settlement records of the debtors, impairment on specific trade receivables balance have been made. Notwithstanding, management of the Group will still strive to closely follow up all outstanding balances from debtors to minimise the loss.

Finance expenses

There was a decrease in finance expense for the year ended 31 December 2016, dropping from approximately RMB5.4 million for the year ended 31 December 2015 to approximately RMB4.5 million for the year ended 31 December 2016. Such decrease in the finance expenses was mainly due to a lower average effective interest rate enacted by the financial institutions to the Group for the year ended 31 December 2016.

Income tax expense

There was an increase of approximately RMB5.6 million in the income tax expenses for the year ended 31 December 2016, increasing from approximately RMB16.4 million for the year ended 31 December 2015 to approximately RMB22.0 million for the year ended 31 December 2016, which was mainly due to the increase in the operating profits earned in China for the year ended 31 December 2016.

The overall effective tax rate of the Group increased from approximately 26.7% for the year ended 31 December 2015 to approximately 29.3% for the year ended 31 December 2016. Such increase was mainly because of the increase in listing expenses incurred in Hong Kong for the year ended 31 December 2016 which was not deductible for income tax purpose.

Total comprehensive income attributable to shareholders of the Company

There was an increase of approximately 17.7% in the total comprehensive income attributable to owners of the Company for the year ended 31 December 2016, from approximately RMB45.2 million for the year ended 31 December 2015 to approximately RMB53.2 million for the year ended 31 December 2016, which was mainly contributed by the increase in sales of plywood products during the year ended 31 December 2016.

Property, plant and equipment

The size of the Group's existing production plants for both plywood products and biomass wood pellets were sufficient to support the Group's production plans for the year ended 31 December 2016, and therefore there was no expansion for the Group's production plants during the year ended 31 December 2016.

As at 31 December 2016, items of property, plant and equipment with carrying amount of approximately RMB58.3 million were pledged to the financial institution in favour of some of the bank borrowings advanced to the Group.

Inventory

The Group's inventory balances as at 31 December 2016 comprised raw materials, work-in-progress and finished goods for both plywood products and biomass wood pellets. Increase in the inventory balance of approximately RMB12.1 million, from approximately RMB34.5 million as at 31 December 2015 to approximately RMB46.6 million as at 31 December 2016, was mainly due to more work in progress and finished goods of plywood products stored up as at 31 December 2016 to meet the production and sales plan in January 2017.

Trade receivables

Trade receivables balance as at 31 December 2016 mainly represented outstanding balance from customers of our plywood products. There was an increase in trade receivables balance before allowance for impairment of approximately RMB69.7 million, from approximately RMB58.9 million as at 31 December 2015 to approximately 128.6 million as at 31 December 2016. In spite of such significant increase, the Group has maintained the overdue portion at similar level due to the fact that our sales of plywood products in the last quarter of the year 2016 outperformed when compared to the year of 2015, recording an increase in sales of plywood products of approximately 42.0%.

Given the Group has recorded a significant increase of trade receivable balance as at 31 December 2016, a specific impairment assessment has been performed to most of the Group's major customers, and accordingly, approximately RMB2.7 million of impairment loss of trade receivable balances was recorded as at 31 December 2016.

Cash and cash equivalents

Upon the successful listing of the shares of the Company on 19 December 2016, the Group has received net proceeds of approximately RMB107.3 million through issuance of 180,000,000 shares of the Company up till 31 December 2016, resulting in a significant increase of the Group's cash and cash equivalents balance as at 31 December 2016 of approximately RMB118.7 million, from approximately RMB9.0 million as at 31 December 2015 to approximately RMB127.7 million as at 31 December 2016.

Since the net proceeds from the IPO were just received by the Company shortly before the end of the year 2016, the plan for the use of proceeds as disclosed in the Company's prospectus dated 7 December 2016 (the "**Prospectus**") had not been executed yet as at 31 December 2016, and the received net proceeds were deposited in financial institutions as at 31 December 2016 for use as stated in the Prospectus.

Borrowings

The source of debt financing of the Group was mainly from banks. As at 31 December 2016, the Group had borrowings of RMB84 million advanced from banks located in China. 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 RMB81.6 million were pledged to some of the banks to secure the bank borrowings advanced to the Group. Over the past year, the Group succeeded in lowering the average effective interest rate of the Group from approximately 7.7% as at 31 December 2015 to approximately 6.4% as at 31 December 2016. Upon the successful listing of the shares of the Company by the end of the year 2016, the Group is in the process of negotiating better borrowing terms with the existing banks and also other potential banks hoping to further lower the finance costs of the Group in the long run.

FINANCIAL INFORMATION

Consolidated statement of comprehensive income

Year ended 31 December 2016

	<i>Notes</i>	2016 RMB'000	2015 <i>RMB'000</i>
Revenue	3	466,118	380,860
Cost of sales		(359,969)	(297,370)
Gross profit		106,149	83,490
Selling and distribution expenses		(933)	(2,946)
Administrative expenses		(34,584)	(20,575)
Other income	4	9,217	7,304
Other losses	5	(93)	(178)
Operating profit		79,756	67,095
Finance income		5	1
Finance expenses		(4,499)	(5,428)
Finance expenses, net	7	(4,494)	(5,427)
Profit before income tax		75,262	61,668
Income tax expense	8	(22,031)	(16,446)
Profit after tax		53,231	45,222
Comprehensive income		—	—
Total comprehensive income for the year and attributable to shareholders of the Company		53,231	45,222
Earnings per share for profit attributable to the shareholders of the Company – Basic and diluted	9	9.74 cents	8.37 cents

Consolidated balance sheet*As at 31 December 2016*

	<i>Notes</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Assets			
Non-current assets			
Land use rights		23,300	23,807
Property, plant and equipment		99,813	104,877
Deferred income tax assets		1,071	1,971
		124,184	130,655
Current assets			
Inventories	10	46,581	34,523
Trade and other receivables	11	128,148	61,690
Cash and cash equivalents		127,690	9,006
		302,419	105,219
Total assets		426,603	235,874
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	12	6,393	—
Share premium	12	95,750	—
Capital and other reserves	13	45,126	38,632
Retained earnings		144,518	97,781
Total equity		291,787	136,413
Liabilities			
Non-current liabilities			
Borrowings	14	—	1,023
Deferred income		417	440
Deferred income tax liabilities		—	112
		417	1,575
Current liabilities			
Trade and other payables	15	29,905	32,708
Current income tax liabilities		19,471	15,389
Borrowings	14	85,023	49,789
		134,399	97,886
Total liabilities		134,816	99,461
Total equity and liabilities		426,603	235,874

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

The consolidated financial statements of the Company have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

3. Revenue

The revenue of the Group during the year are set out as follows:

	Years ended 31 December	
	2016	2015
	<i>RMB’000</i>	<i>RMB’000</i>
Total segment revenue		
- Sales of plywood	363,685	284,204
- Sales of biomass wood pellets	109,115	102,126
Inter-segment revenue	(6,682)	(5,470)
	466,118	380,860

4. Other income

	Years ended 31 December	
	2016	2015
	RMB'000	RMB'000
Sales of plywood core	1,923	1,399
Refund of value added tax	6,800	5,877
Foreign exchange gain	25	—
Amortisation of deferred income related to government grant	23	28
Others	446	—
	<u>9,217</u>	<u>7,304</u>

5. Other losses

	Years ended 31 December	
	2016	2015
	RMB'000	RMB'000
Foreign exchange loss	—	75
Others	93	103
	<u>93</u>	<u>178</u>

6. Expenses by nature

	Years ended 31 December	
	2016	2015
	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress	(11,043)	(6,668)
Raw materials and consumables used	341,735	273,823
Employee benefit expense	20,811	21,511
Depreciation and amortisation	5,713	5,872
Transportation expenses	—	2,122
Taxes and levies	3,780	3,211
Utilities	5,460	4,929
Research and development expenses	6,928	4,467
Provision for receivables impairment	2,692	—
Audit remuneration	1,300	359
Professional fees in respect of the IPO	13,194	7,522
Others	4,916	3,743
	<u>395,486</u>	<u>320,891</u>

7. Finance expenses, net

	Years ended 31 December	
	2016	2015
	RMB'000	RMB'000
Financial expenses:		
- Interest expense on borrowings from banks	4,108	4,592
- Interest expense on finance leases	391	836
	<u>4,499</u>	<u>5,428</u>
Finance income:		
- Interest income on bank deposits	(5)	(1)
Finance expenses, net	<u>4,494</u>	<u>5,427</u>

8. Income tax expense

PRC profits tax has been provided at the rate of 25% on the estimated assessable profit for the year.

	Years ended 31 December	
	2016	2015
	RMB'000	RMB'000
Current income tax	21,243	16,750
Deferred income tax	788	(304)
Total income tax	<u>22,031</u>	<u>16,446</u>

(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 is exempted from British Virgin Islands income tax, as it is incorporated under the International Business Companies Act of the British Virgin Islands.

(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% for the year.

(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% 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 directors of the Company have confirmed that the Group does not expect the PRC subsidiaries to distribute the retained earnings as at 31 December 2016 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	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax	<u>75,262</u>	<u>61,668</u>
Tax calculated at domestic tax rates applicable to profits in the respective year	18,816	15,417
Tax effects of:		
- Expenses not deductible for tax purpose	2,883	974
- Tax losses for which the deferred income tax asset was not recognised	<u>332</u>	<u>55</u>
Total charge	<u><u>22,031</u></u>	<u><u>16,446</u></u>

9. Earnings per share

(a) Basic

Basic earnings per share for the years ended 31 December 2016 and 2015 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	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Profit attributable to shareholders of the Company	53,231	45,222
Weighted average number of ordinary shares in issue (i) (thousands)	<u>546,393</u>	<u>540,000</u>
Basic earnings per share (RMB cents per share)	<u><u>9.74</u></u>	<u><u>8.37</u></u>

- (i) In determining the weighted average number of ordinary shares in issue during the years ended 31 December 2016 and 2015, a capitalisation of 539,980,000 shares by debiting the share premium on 19 December 2016 has been regarded as if these shares had been in issue since 1 January 2015.

(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 2016 and 2015, the diluted earnings per share is 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	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	12,590	11,593
Work-in-progress	13,437	9,750
Finished goods	20,554	13,180
	<u>46,581</u>	<u>34,523</u>

11. Trade and other receivables

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	128,621	58,917
Less: Allowance for impairment of receivables	(2,692)	—
Trade receivables – net	<u>125,929</u>	<u>58,917</u>
Prepayments		
- Prepayments for raw materials	1,141	1,680
- Prepayments for IPO	—	1,061
Other receivables	1,078	32
	<u>128,148</u>	<u>61,690</u>

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.

As at 31 December 2016 and 2015 the aging analysis of the trade receivables based on invoice date is as follows:

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 3 months	92,713	50,335
4 to 6 months	30,372	4,893
7 to 12 months	5,428	2,493
Over 1 year	108	1,196
	128,621	58,917

As at 31 December 2016, trade receivables of approximately RMB22,333,000 (2015: RMB9,907,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty, and based on experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Past due for 1 to 6 months	22,215	7,743
Past due for more than 6 months	118	2,164
	22,333	9,907

As at 31 December 2016, trade receivables of approximately RMB17,959,000 (2015: nil) were impaired. The amount of the provision was RMB2,692,000 (2015: nil). The individually impaired receivables mainly relate to customers who were in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Past due for 1 to 6 months	16,951	—
Past due for more than 6 months and less than 1 year	900	—
Past due for more than 1 year	108	—
	17,959	—

Movements on the Group's allowance for impairment of trade receivables are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
As at 1 January	—	—
Provision for receivables impairment	(2,692)	—
As at 31 December	(2,692)	—

The carrying amounts of the Group's trade and other receivables were mainly dominated in RMB and approximated their fair values as at the respective 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

	Notes	Number of shares	Amount		
			Ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
As at 1 January 2015, 31 December 2015 and 1 January 2016		20,000	—	—	—
Issue of shares for listing	(i)	180,000,000	1,598	100,545	102,143
Share capitalisation	(ii)	539,980,000	4,795	(4,795)	—
As at 31 December 2016		<u>720,000,000</u>	<u>6,393</u>	<u>95,750</u>	<u>102,143</u>

- (i) On 19 December 2016, the Company issued 180,000,000 shares of HK\$0.01 each at HK\$0.70 per share in connection with its global offering and commencement of the listing of its shares on The Stock Exchange of Hong Kong Limited on the same date. The gross proceeds raised from the global offering is HK\$126,000,000 as of 31 December 2016 (approximately RMB111,880,000). The transaction costs of RMB9,737,000 were debited to the share capital.
- (ii) On 19 December 2016, conditional on the share premium account of the Company being credited as a result of the issue of the Offer Shares by the Company pursuant to the Global Offering, the directors were authorised to capitalise an amount of HK\$5,399,800 from the share premium amount of the Company by applying such sum in paying up in full at par 539,980,000 shares, such shares were allotted and issued to the shareholders of the Company whose names appearing on the register of members of the Company at the close business on 25 November 2016 in proportion to their then respective shareholdings in the Company.

After the issuance of the global offering shares and share capitalisation, the total number of the ordinary shares in issue was 720,000,000 at the par value of HK\$0.01 per share.

13. Capital and other reserves

	Notes	Capital reserve <i>RMB'000</i>	Statutory reserve <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 January 2015		23,579	6,818	30,397
Capital contribution from the then equity holders of the subsidiaries comprising the Group	(i)	3,310	—	3,310
Profit appropriation to statutory reserve	(ii)	—	4,925	4,925
Balance at 31 December 2015 and 1 January 2016		26,889	11,743	38,632
Profit appropriation to statutory reserve	(ii)	—	6,494	6,494
Balance at 31 December 2016		<u>26,889</u>	<u>18,237</u>	<u>45,126</u>

(i) Capital contribution from the then equity holders of the subsidiaries comprising the Group represents the capital injection to Heroic Group Limited and its subsidiaries made by the founding shareholders during the year.

(ii) Statutory reserve

In accordance with the PRC regulations and the articles of the association of the PRC companies comprising the Group, before distributing the net profit of each year, each of the companies registered in the PRC is required to set aside 10% of its statutory net profit for the year after offsetting any prior year's losses as determined under the PRC accounting regulations to the statutory surplus reserve fund. When the balance of such reserve reaches 50% of each company's share capital, any further appropriation is optional. 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

	Notes	As at 31 December	
		2016 RMB'000	2015 RMB'000
<u>Non-current</u>			
Finance lease liabilities	(b)	—	1,023
<u>Current</u>			
Short-term bank borrowings	(a)		
– Secured		78,000	46,000
– Unsecured		6,000	—
Finance lease liabilities	(b)	1,023	3,789
		<u>85,023</u>	<u>49,789</u>
Total borrowings		<u><u>85,023</u></u>	<u><u>50,812</u></u>

(a) Borrowings from banks

The Group's bank borrowings were secured by land use rights of the Group with net book value of RMB23,300,000 (2015: RMB23,807,000), plants of the Group with net book value of RMB58,321,000 (2015: RMB60,435,000), as at 31 December 2016. The borrowings were also supported by guarantees from related parties.

The Group's unsecured borrowing as at 31 December 2016 was guaranteed by Heze Jinhe Financing Guarantee Investment Co., Ltd, an independent third party of the Group.

For year ended 31 December 2016, the weighted average effective interest rates on borrowings from banks was 6.35% (2015: 7.73%).

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

(b) Finance lease liabilities

The rights to the leased assets are reverted to the lessor in the event of default of the lease liabilities by the Group.

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	1,046	4,178
Later than 1 year and no later than 5 years	—	1,046
	<u>1,046</u>	<u>5,224</u>
Future finance charges on finance leases	(23)	(412)
Present value of finance lease liabilities	<u>1,023</u>	<u>4,812</u>
The present value of finance lease liabilities is as follows:		
No later than 1 year	1,023	3,789
Later than 1 year and no later than 5 years	—	1,023
	<u>1,023</u>	<u>4,812</u>

The effective annual interest rate of these finance lease liabilities was 12.56% as at 31 December 2016 and 2015.

The net carrying amount of the machinery under finance leases amounted to RMB12,316,000 as at 31 December 2016 (2015: RMB13,244,000).

The carrying amounts of the Group's finance lease liabilities were denominated in RMB and approximated their fair values as at the respective balance sheet dates.

15. Trade and other payables

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	3,610	7,665
Advances from customers	1,482	2,872
Payable for professional fees in respect of IPO	11,161	5,089
Other taxes payable	2,797	2,982
Employee benefit payables	8,147	11,366
Others	2,708	2,734
	<u>29,905</u>	<u>32,708</u>

As at 31 December 2016 and 2015 the aging analysis of the trade payables based on invoice date is as follows:

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	3,610	6,596
4 to 6 months	—	117
7 to 12 months	—	903
1 to 2 years	—	49
	3,610	7,665

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

EVENT AFTER THE REPORTING PERIOD

Full exercise of the over-allotment option

China Industrial Securities International Capital Limited, the Sole Global Coordinator of the Company in the IPO, fully exercised the over-allotment option granted by the Company to issue 27,000,000 additional shares, representing 15% of the initial Offer Shares, as defined in the Prospectus, at HK\$0.7 per ordinary share of the Company. Listing of and dealings in these 27,000,000 additional shares were commenced on The Stock Exchange of Hong Kong Limited at 9:00 a.m. on 6 January 2017. There were net proceeds of approximately RMB15.5 million from these 27,000,000 additional shares, which will be used by the Company on a pro rata basis for the same purpose as set out in the section headed "Future Plans and Use of Proceeds – Use of Proceeds" in the Prospectus. Please refer to the announcement of the Company dated 6 January 2017 for further details.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016.

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 since 19 December 2016, the date on which the shares of the Company were listed on The Stock Exchange of Hong Kong Limited and up to 31 December 2016.

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 2016.

REVIEW BY THE AUDIT COMMITTEE

The results of the Company for the year ended 31 December 2016 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, 9 June 2017 (the “AGM”). The notice of the AGM will be issued and despatched in due course.

CLOSURE OF REGISTER OF MEMEBRS

The register of members of the Company will be closed from Tuesday, 6 June 2017 to Friday, 9 June 2017, both days inclusive, for the purpose of ascertaining shareholders’ entitlement to attend and vote at the AGM. In order to be entitled to attend and vote at the AGM, 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, 5 June 2017.

By order of the Board
Da Sen Holdings Group Limited
Ke Mingcai
Chairman

Hong Kong, 27 March 2017

As at the date of this announcement, the executive directors of the Company are Mr. Ke Mingcai, Mr. Wang Songmao, Mr. Zhang Ayang and Mr. Wu Shican; and the independent non-executive directors of the Company are Mr. Shao Wanlei, Mr. Lin Triomphe Zheng and Mr. Wang Yuzhao.