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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 2017

The Board hereby announces results of the Group for the year ended 31 December 2017.

<b>FINANCIAL HIGHLIGHTS</b>			
	<b>2017</b>	2016	<b>Change</b>
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	<b>499,563</b>	466,118	7.2%
Gross profit	<b>97,251</b>	106,149	(8.4%)
Gross profit margin	<b>19.5%</b>	22.8%	
Total comprehensive income attributable to the shareholders of the Company	<b>50,143</b>	53,231	(5.8%)
Earnings per share (basic and diluted)	<b>6.59 cents</b>	9.74 cents	(32.3%)
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:

“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 80.3% of the total revenue for the year ended 31 December 2017.

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 114 customers of plywood products for the year ended 31 December 2017, 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, Shangdong 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 83 customers of biomass wood pellets for the year ended 31 December 2017, out of which the five largest customers contributed for less than 30% of the total revenue of biomass wood pellets.

### **RECENT DEVELOPMENT**

The Group had a number of construction in progress for production facilities as at 31 December 2017. There has been progress in the construction since 1 January 2018, and it is expected that most of the construction will be completed in the first half of the year 2018, and all necessary licenses and permits for operation of those new production facilities is also expected to be obtained at the same time.

## **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 2017 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.

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, especially with the environmental measures undertaken by the Central People's Government recently. 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.

## **FINANCIAL REVIEW**

### **Revenue**

During the year ended 31 December 2017, the Group had an overall steady growth in revenue of approximately 7.2%, from approximately RMB466.1 million for the year ended 31 December 2016 to approximately RMB499.6 million for the year ended 31 December 2017.

The Group's plywood products contributed to the revenue growth of the Group for the year ended 31 December 2017. Revenue arising from sales of plywood products increased from approximately RMB363.7 million for the year ended 31 December 2016 to approximately RMB401.2 million for the year ended 31 December 2017, representing a growth rate of approximately 10.3%. Such growth was mainly because of the increased number of purchase orders from the existing customers as well as securing some new customers during the year ended 31 December 2017.

The sales of the biomass wood pellets for the year ended 31 December 2017 maintained at a similar level as compared to the sales for the year ended 2016, changing from approximately RMB102.4 million for the year ended 31 December 2016 to approximately RMB98.4 million for the year ended 31 December 2017.

### **Gross profit**

The overall gross profit margin of the Group dropped for the year ended 31 December 2017, changing from approximately 22.8% for the year ended 31 December 2016 to approximately 19.5% for the year ended 31 December 2017. 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 2017.

### **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 2017 was mainly due to less refund of value-added tax received during the year ended 31 December 2017. Since the Group incurred additional production cost during the year ended 31 December 2017, 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 2017.

### **Selling and distribution expenses**

There was an increase of approximately RMB0.7 million in selling and distribution expenses for the year ended 31 December 2017, changing from approximately RMB0.9 million for the year ended 31 December 2016 to approximately RMB1.6 million for the year ended 31 December 2017. Increase in the amount was mainly due to expenses incurred for the operation of the sale office newly set up in Fujian province during the year ended 31 December 2017.

### **Administrative expenses**

There was a decrease of approximately RMB7.3 million in administrative expenses for the year ended 31 December 2017, decreasing from approximately RMB34.6 million for the year ended 31 December 2016 to approximately RMB27.3 million for the year ended 31 December 2017. Such decrease was mainly due to the net effects of the followings: (i) non-recurring listing expenses of approximately RMB13.2 million incurred during the year ended 31 December 2016 in relation to the initial public offering of the shares of the Company (the “IPO”); (ii) additional research and development expenses of approximately RMB3.9 million incurred during the year ended 31 December 2017 for supporting the product testing and modifications to meet customers’ needs; (iii) the increased Directors’ remuneration of approximately RMB1.2 million granted to the executive Directors for the year ended 31 December 2017; and (iv) additional losses of approximately RMB0.9 million arising from the impairment of trade receivables as a result of management assessment on the recoverability of some outstanding balances from debtors as at 31 December 2017.

### **Finance costs**

There was an increase in finance costs for the year ended 31 December 2017, increasing from approximately RMB4.5 million for the year ended 31 December 2016 to approximately RMB5.5 million for the year ended 31 December 2017. Such increase in the finance costs was mainly due to a higher average effective interest rate arising from the long-term straight bonds issued during the year ended 31 December 2017. The average effective interest rate rose from approximately 6.4% for the year ended 31 December 2016 to approximately 7.4% for the year ended 31 December 2017.

### **Income tax expense**

There was a decrease of approximately RMB2.8 million in the income tax expenses for the year ended 31 December 2017, decreasing from approximately RMB22.0 million for the year ended 31 December 2016 to approximately RMB19.2 million for the year ended 31 December 2017, which was mainly due to the decrease in the operating profits earned in China for the year ended 31 December 2017.

The overall effective tax rate of the Group decreased from approximately 29.3% for the year ended 31 December 2016 to approximately 27.7% for the year ended 31 December 2017. Higher effective tax rate for the year ended 31 December 2016 was mainly due to the non-recurring 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**

There was a decrease of approximately 5.8% in the total comprehensive income attributable to shareholders of the Company for the year ended 31 December 2017, from approximately RMB53.2 million for the year ended 31 December 2016 to approximately RMB50.1 million for the year ended 31 December 2017, 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 2017.

### **Property, plant and equipment**

During the year ended 31 December 2017, the Group has contributed approximately RMB69.8 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 and biomass wood pellets. New production facilities are constructed mainly to expand the production capacities to support the development of the Group's business. In addition, the Group has expanded the peeling function of the existing production facilities for plywood products for a more stable supply of plywood veneers as the major type of raw materials for the production of plywood products.

As at 31 December 2017, items of property, plant and equipment with carrying amount of approximately RMB56.2 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 2017 comprised raw materials, work-in-progress and finished goods for both plywood products and biomass wood pellets. Increase in the inventory balance of approximately RMB42.4 million, from approximately RMB46.6 million as at 31 December 2016 to approximately RMB89.0 million as at 31 December 2017, was mainly due to more raw materials, work in progress and finished goods of plywood products stored up as at 31 December 2017 to meet the production and sales plan in the first quarter of the year 2018. The inventory as at 31 December 2017 have been fully utilised and sold subsequently by the date of this announcement.

### **Trade receivables**

Trade receivables balance as at 31 December 2017 mainly represented outstanding balance from customers of our plywood products. There was an increase in trade receivables balance before provision for impairment of approximately RMB24.6 million, from approximately RMB128.6 million as at 31 December 2016 to approximately RMB153.2 million as at 31 December 2017. Notwithstanding, the Group's trade receivables turnover days of approximately 88 days are still maintained to be shorter than credit terms of 90 days granted to the Group's customers in general.

Given the Group has recorded an increase of trade receivable balance as at 31 December 2017, a specific impairment assessment has been performed to most of the Group's major customers, and accordingly, approximately RMB6.2 million of provision for impairment of trade receivable balances was recorded as at 31 December 2017.

### **Cash and cash equivalents**

There was a decrease in the balance of cash and cash equivalents of approximately RMB53.4 million from approximately RMB127.7 million as at 31 December 2016 to approximately RMB74.3 million as at 31 December 2017. 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 in December 2016, resulting in a significant increase of the Group's cash and cash equivalents balance as at 31 December 2016. During the year ended 31 December 2017, the Group has utilised a portion of the net proceeds from the IPO totaling approximately RMB68.5 million in the construction of new production facilities and purchase of machineries for both plywood products and biomass wood pellets, and also for the operation of the sales office newly set up in Fujian province during the year ended 31 December 2017. In addition to the net proceeds received from the IPO, the Group has completed a placing of 149,400,000 shares of the Company in November 2017, raising a net proceeds of approximately HK\$88.7 million (equivalent to approximately RMB75.6 million). Out of the approximate RMB75.6 million, approximately RMB44.1 million has been utilised up to 31 December 2017 for the construction of the new production facilities for the manufacture of plywood veneers which are one of the key raw materials for the manufacture of the Group's plywood products.

### **Borrowings**

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

As at 31 December 2017, the Group had bank borrowings of RMB27 million advanced from banks located in China, reducing from RMB84 million as at 31 December 2016. 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 RMB79.0 million were pledged to the banks to secure the bank borrowings advanced to the Group. Upon the successful listing of the shares of the Company on The Stock Exchange of Hong Kong Limited by the end of the year 2016, the Group has been 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.

In addition to the bank borrowings, the Group issued long-term straight bonds to some individuals as another channel of financing to the Group during the year ended 31 December 2017. As at 31 December 2017, the Group has outstanding bonds with a total principal amount of approximately RMB23.4 million. The maturity periods of the bonds issued by the Group range from 3 years 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 2017

	<i>Notes</i>	<b>2017</b> <b>RMB'000</b>	2016 <i>RMB'000</i>
Revenue	3	499,563	466,118
Cost of sales		<u>(402,312)</u>	<u>(359,969)</u>
<b>Gross profit</b>		<b>97,251</b>	106,149
Selling and distribution expenses		(1,603)	(933)
Administrative expenses		(27,318)	(34,584)
Other income	4	7,965	9,217
Other losses — net	5	<u>(2,494)</u>	<u>(93)</u>
<b>Operating profit</b>		<b>73,801</b>	79,756
Finance income		1,051	5
Finance costs		<u>(5,489)</u>	<u>(4,499)</u>
Finance costs — net	7	<u>(4,438)</u>	<u>(4,494)</u>
<b>Profit before income tax</b>		<b>69,363</b>	75,262
Income tax expense	8	<u>(19,220)</u>	<u>(22,031)</u>
<b>Profit for the year</b>		<b>50,143</b>	53,231
Comprehensive income		<u>—</u>	<u>—</u>
<b>Total comprehensive income for the year and attributable to the shareholders of the Company</b>		<b><u>50,143</u></b>	<b><u>53,231</u></b>
<b>Earnings per share for profit attributable to the shareholders of the Company during the year</b> (expressed in RMB cents per share)			
— Basic and diluted	9	<b><u>6.59</u></b>	<b><u>9.74</u></b>

**Consolidated balance sheet***As at 31 December 2017*

	<i>Notes</i>	<b>2017</b> <b><i>RMB'000</i></b>	<b>2016</b> <b><i>RMB'000</i></b>
<b>Assets</b>			
<b>Non-current assets</b>			
Land use rights		<b>25,106</b>	23,300
Property, plant and equipment		<b>164,417</b>	99,813
Deferred income tax assets		<b>920</b>	1,071
Prepayment	<i>11</i>	<b>3,150</b>	—
		<b>193,593</b>	124,184
<b>Current assets</b>			
Inventories	<i>10</i>	<b>88,955</b>	46,581
Trade and other receivables	<i>11</i>	<b>159,572</b>	128,148
Cash and cash equivalents		<b>74,263</b>	127,690
		<b>322,790</b>	302,419
<b>Total assets</b>		<b>516,383</b>	426,603
<b>Equity and liabilities</b>			
<b>Equity attributable to the shareholders of the Company</b>			
Share capital	<i>12</i>	<b>7,906</b>	6,393
Share premium	<i>12</i>	<b>185,321</b>	95,750
Other reserves	<i>13</i>	<b>50,888</b>	45,126
Retained earnings		<b>188,899</b>	144,518
<b>Total equity</b>		<b>433,014</b>	291,787
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	<i>14</i>	<b>22,709</b>	—
Deferred income		<b>393</b>	417
Deferred income tax liabilities		<b>26</b>	—
		<b>23,128</b>	417

	<i>Notes</i>	<b>2017</b> <b><i>RMB'000</i></b>	2016 <i>RMB'000</i>
<b>Current liabilities</b>			
Trade and other payables	<i>15</i>	<b>17,634</b>	29,905
Current income tax liabilities		<b>14,998</b>	19,471
Borrowings	<i>14</i>	<u><b>27,609</b></u>	<u>85,023</u>
		<u><b>60,241</b></u>	<u>134,399</u>
<b>Total liabilities</b>		<u><b>83,369</b></u>	<u>134,816</u>
<b>Total equity and liabilities</b>		<u><u><b>516,383</b></u></u>	<u><u>426,603</u></u>

## 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

The consolidated financial statements of the Company have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by financial liabilities that are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method.

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.

The financial information presented in this announcement was extracted from the Group’s consolidated financial statements for the year ended 31 December 2017.

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

##### (a) Amended standards adopted by the Group

The following amendments to standards relevant to the Group are mandatory for the first time for the financial year beginning on or after 1 January 2017:

- Amendments to IAS 7 “Statement of cash flows” introduced an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments as mentioned above did not have a material effect on the Group’s operating results, financial position or comprehensive income.

##### (b) Amendments to existing standards effective in 2017 but not relevant to the Group

		<b>Effective for annual periods beginning on or after</b>
IAS 12 (Amendments)	Income taxes	1 January 2017
IFRS 12 (Amendment)	Disclosure of interest in other entities	1 January 2017

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

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

(c) *New and amended standards that might be relevant to the Group have been issued but are not effective for the financial year beginning on 1 January 2017 and have not been early adopted by the Group:*

		<b>Effective for annual periods beginning on or after</b>
IFRS 1 (Amendment)	First time adoption of IFRS	1 January 2018
IFRS 2 (Amendments)	Classification and measurement of share-based payment transactions	1 January 2018
IFRS 4 (Amendments)	Insurance contracts	1 January 2018
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
HK (IFRIC) 22	Foreign currency transactions and advance consideration	1 January 2018
IAS 28 (Amendment)	Investments in associates and joint ventures	1 January 2018
IAS 40 (Amendments)	Transfers of investment property	1 January 2018
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over income tax treatments	1 January 2019
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
IFRS 17	Insurance contracts	1 January 2021 or when apply IFRS 15 and IFRS 9

## 3. REVENUE

The revenue of the Group for the year ended 31 December 2017 is set out as follows:

	<b>Years ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Sales of plywood	<b>401,176</b>	363,685
Sales of biomass wood pellets	<b>98,387</b>	102,433
	<b><u>499,563</u></b>	<u>466,118</u>

#### 4. OTHER INCOME

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Refund of value added tax (“VAT”) (Note)	4,285	6,800
Sales of plywood core	3,626	1,923
Amortisation of deferred income related to government grants	24	23
Net foreign exchange gains	—	25
Others	30	446
	<u>7,965</u>	<u>9,217</u>

*Note:* Pursuant to the approval by the Economic and Information Technology Committee of Shandong Province, the subsidiary of the Group in the manufacture of biomass wood pellets was entitled to VAT refund of its sales of its products which involves comprehensive utilisation of resources for years ended 31 December 2017 and 2016.

#### 5. OTHER LOSSES — NET

	Years ended 31 December	
	2017	2016
	RMB'000	RMB'000
Net foreign exchange losses	2,366	—
Donations	85	—
Net gain on disposal of property, plant and equipment	(14)	—
Others	57	93
	<u>2,494</u>	<u>93</u>

#### 6. EXPENSES BY NATURE

	Years ended 31 December	
	2017	2016
	RMB'000	RMB'000
Changes in inventories of finished goods and work-in-progress	(20,804)	(11,043)
Raw materials and consumables used	387,537	341,735
Employee benefit expenses	26,761	20,811
Research and development expenses	10,821	6,928
Provision for receivables impairment	3,540	2,692
Depreciation and amortisation	6,243	5,713
Utilities	6,053	5,460
Taxes and levies	3,540	3,780
Audit service	1,902	1,300
Professional fees in respect of the IPO	—	13,194
Other expenses	5,640	4,916
	<u>431,233</u>	<u>395,486</u>
Total cost of sales, selling and distribution expenses and administrative expenses		

## 7. FINANCE INCOME AND COSTS

	Years ended 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income:		
— Interest income on bank deposits	(17)	(5)
— Net foreign exchange gains on financing activities	<u>(1,034)</u>	<u>—</u>
Finance income:	<u>(1,051)</u>	<u>(5)</u>
Finance costs:		
— Interest expense on borrowings from banks	4,731	4,108
— Interest expense on bonds	737	—
— Interest expense on finance leases	<u>21</u>	<u>391</u>
Finance costs:	<u>5,489</u>	<u>4,499</u>
Net finance costs	<u>4,438</u>	<u>4,494</u>

## 8. INCOME TAX EXPENSE

	Years ended 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax	19,043	21,243
Deferred income tax	<u>177</u>	<u>788</u>
Total income tax	<u>19,220</u>	<u>22,031</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 ("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% (2016:16.5%) 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% (2016: 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 2017 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	
	2017	2016
	<i>RMB’000</i>	<i>RMB’000</i>
Profit before income tax	<u>69,363</u>	<u>75,262</u>
Tax calculated at domestic tax rates applicable to profits in the respective year	17,341	18,816
Tax effects of:		
— Expenses not deductible for tax purpose	2,671	2,883
— Income not subject to tax	(1,395)	—
— Unrecognised tax losses	<u>603</u>	<u>332</u>
Tax charge	<u>19,220</u>	<u>22,031</u>

## 9. EARNINGS PER SHARE

### (a) Basic

Basic earnings per share for the years ended 31 December 2017 and 2016 is 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	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Profit attributable to the shareholders	50,143	53,231
Weighted average number of ordinary shares in issue (thousands)	<u>760,547</u>	<u>546,393</u>
Basic earnings per share (RMB cents per share)	<u><u>6.59</u></u>	<u><u>9.74</u></u>

### (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 2017 and 2016, 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	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	33,410	12,590
Work-in-progress	15,236	13,437
Finished goods	<u>40,309</u>	<u>20,554</u>
	<u><u>88,955</u></u>	<u><u>46,581</u></u>

## 11. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	153,180	128,621
Less: Provision for impairment	<u>(6,232)</u>	<u>(2,692)</u>
Trade receivables — net	146,948	125,929
Prepayments		
— Prepayments for raw materials	11,669	1,141
— Prepayments for land use rights	3,150	—
Other receivables	<u>955</u>	<u>1,078</u>
	162,722	128,148
Less: Prepayment (non-current portion)	<u>(3,150)</u>	<u>—</u>
	<u><b>159,572</b></u>	<u><b>128,148</b></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 2017 and 2016 the aging analysis of the trade receivables based on invoice date was as follows:

	As at 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 3 months	91,577	92,713
4 to 6 months	29,266	30,372
7 to 12 months	26,044	5,428
Over 1 year	<u>6,293</u>	<u>108</u>
	<u><b>153,180</b></u>	<u><b>128,621</b></u>

As at 31 December 2017, trade receivables of approximately RMB15,320,000 (2016: RMB22,333,000) 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 aging analysis of these trade receivables is as follows:

	As at 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Past due for 1 to 6 months</b>	14,666	22,215
<b>Past due for more than 6 months</b>	<u>654</u>	<u>118</u>
	<u><b>15,320</b></u>	<u><b>22,333</b></u>

## 11. TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2017, trade receivables of approximately RMB39,392,000 (2016: RMB17,959,000) were impaired. The amount of the provision was RMB6,232,000 (2016: RMB2,692,000). The individually impaired receivables mainly related to customers who were in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The aging analysis of these trade receivables is as follows:

	As at 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Past due for 1 to 6 months	21,891	16,951
Past due for more than 6 months and less than 1 year	16,490	900
Past due for more than 1 year	<u>1,011</u>	<u>108</u>
	<u><b>39,392</b></u>	<u><b>17,959</b></u>

Movements in the provision for impairment of trade receivables are as follows:

	As at 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January	2,692	—
Provision for impairment recognised during the year	5,315	2,692
Reversal of receivables impairment during the year	<u>(1,775)</u>	<u>—</u>
<b>As at 31 December</b>	<u><b>6,232</b></u>	<u><b>2,692</b></u>

The carrying amounts of the Group's trade and other receivables were mainly denominated 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

	Number of ordinary shares <i>'000</i>	Amount		
		Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2016	20	—	—	—
Issue of shares upon IPO (a)	180,000	1,598	100,545	102,143
Share capitalisation (b)	539,980	4,795	(4,795)	—
At 31 December 2016	720,000	6,393	95,750	102,143
At 1 January 2017	720,000	6,393	95,750	102,143
Issue of shares via exercising over-allotment option (c)	27,000	242	15,262	15,504
Placing of new shares (d)	149,400	1,271	74,309	75,580
At 31 December 2017	896,400	7,906	185,321	193,227

### Notes:

- (a) 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 IPO 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 IPO was HK\$126,000,000 (approximately RMB111,880,000). The transaction costs of RMB9,737,000 were debited to the share premium account.
- (b) On 19 December 2016, conditional on the share premium account of the Company being credited as a result of the issue of 180,000,000 shares by the Company in relation to the IPO, Directors were authorised to capitalise an amount of HK\$5,399,800 (approximately RMB4,795,000) from the share premium account of the Company by applying such sum in paying up in full at par of the offer shares. The 539,980,000 shares were allotted and issued to the shareholders 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.
- (c) 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 IPO. 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.
- (d) 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 2017 and 2016.

### 13. OTHER RESERVES

	<b>Capital reserves (a) RMB'000</b>	<b>Statutory reserves (b) RMB'000</b>	<b>Total RMB'000</b>
<b>At 1 January 2016</b>	26,889	11,743	38,632
Profit appropriation to statutory reserves	<u>—</u>	<u>6,494</u>	<u>6,494</u>
<b>At 31 December 2016</b>	26,889	18,237	45,126
Profit appropriation to statutory reserves	<u>—</u>	<u>5,762</u>	<u>5,762</u>
<b>At 31 December 2017</b>	<u>26,889</u>	<u>23,929</u>	<u>50,888</u>

#### (a) Capital reserves

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

#### (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

	<b>As at 31 December</b>	
	<b>2017 RMB'000</b>	<b>2016 RMB'000</b>
<b>Non-current</b>		
Bonds (a)	<u>22,709</u>	<u>—</u>
<b>Current</b>		
Bonds within one year (a)	609	—
Short-term bank borrowings		
— Secured (b)	27,000	78,000
— Unsecured (b)	—	6,000
Finance lease liabilities (c)	<u>—</u>	<u>1,023</u>
	<u>27,609</u>	<u>85,023</u>
<b>Total borrowings</b>	<u>50,318</u>	<u>85,023</u>

## 14. BORROWINGS (continued)

### (a) Bonds:

During the year ended 31 December 2017, the Company issued long-term straight bonds at a total par value of HK\$28,000,000 (equivalent of RMB 23,405,000) 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 amount as at 31 December 2017.

As at 31 December 2017, the Group's bonds were repayable as follows:

	As at 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	609	—
Between 2 and 5 years	8,356	—
Over 5 years	14,353	—
	<u>23,318</u>	<u>—</u>

### (b) Borrowings from banks

The Group's bank borrowings were secured by land use rights of the Group with net book value of RMB22,794,000 (2016: RMB23,300,000), plants of the Group with net book value of RMB56,213,000 (2016: RMB58,321,000), as at 31 December 2017. 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 the year ended 31 December 2017, the weighted average effective interest rate on borrowings from banks was 7.80% (2016: 6.35%).

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.

## 14. BORROWINGS (continued)

### (c) Finance lease liabilities

As at 31 December 2017 the lease agreement was expired and the ownership of leasehold was transferred to the Company. There is no leased machinery or equipment as at 31 December 2017.

	As at 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Gross finance lease liabilities — minimum lease payments		
No later than 1 year	—	1,046
Later than 1 year and no later than 5 years	—	—
	<u>—</u>	<u>—</u>
	—	1,046
Future finance charges on finance leases	—	(23)
	<u>—</u>	<u>(23)</u>
Present value of finance lease liabilities	<u>—</u>	<u>1,023</u>
The present value of finance lease liabilities is as follows:		
No later than 1 year	—	1,023
Later than 1 year and no later than 5 years	—	—
	<u>—</u>	<u>—</u>
	<u>—</u>	<u>1,023</u>

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

The net carrying amount of the machinery under finance leases amounted to RMB12,316,000 as at 31 December 2016.

The carrying amounts of the Group's finance lease liabilities were denominated in RMB and approximated their fair values as at the 31 December 2016.

## 15. TRADE AND OTHER PAYABLES

	As at 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	4,916	3,610
Employee benefit payables	4,587	8,147
Other taxes payable	3,670	2,797
Payable for placing new share expenses	1,165	—
Advances from customers	827	1,482
Payable for listing expenses	—	11,161
Others	2,469	2,708
	<u>17,634</u>	<u>29,905</u>

As at 31 December 2017 and 2016 the aging analysis of the trade payables based on invoice date is as follows:

	As at 31 December	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	4,864	3,610
4 to 6 months	52	—
	<u>4,916</u>	<u>3,610</u>

The carrying amounts of the Group's trade and other payables were approximated their fair values 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 2017.

## **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 2017.

## **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 2017.

## **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 2017, 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 results of the Company for the year ended 31 December 2017 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, 1 June 2018. 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, 29 May 2018 to Friday, 1 June 2018, 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, 28 May 2018.

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

Hong Kong, 29 March 2018

*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.*