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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 2019

The Board hereby announces results of the Group for the year ended 31 December 2019.

FINANCIAL HIGHLIGHTS			
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>	Change
Revenue	318,542	435,664	(26.9)%
Gross (loss)/profit	(28,652)	55,493	(151.6)%
Gross profit margin	(9.0)%	12.7%	
Total comprehensive (loss)/income attributable to the shareholders of the Company	(75,581)	19,273	(492.2)%
(Losses)/earnings per share (basic and diluted)	(8.05) cents	2.15 cents	(474.4)%
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:

<i>“Board”</i>	<i>The board of Directors</i>
<i>“China” or “PRC”</i>	<i>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</i>
<i>“Company”</i>	<i>Da Sen Holdings Group Limited</i>
<i>“Director(s)”</i>	<i>Director(s) of the Company</i>
<i>“Group”</i>	<i>The Company and its subsidiaries</i>
<i>“HK\$”</i>	<i>Hong Kong dollars, the lawful currency of Hong Kong</i>
<i>“RMB”</i>	<i>Renminbi Yuan, the lawful currency of the PRC</i>

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, 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 and 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 poplars. Customers usually use the Group's plywood products as materials for interior decoration or furniture making, and some customers sell 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 95.9% of the total revenue for the year ended 31 December 2019.

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 provide a solid supply base 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 selling to their downstream customers with or without processing. Most customers of the Group's plywood products are located in Eastern China and Southern China regions. The Group maintains a large customer base for the plywood products and there were totally 124 customers of plywood products for the year ended 31 December 2019, out of which the five largest customers contributed for approximately 33.3% 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 are a relatively cleaner fuel as compared to other traditional forms of fuel, such as coal. Biomass wood pellets also have a competitive edge in transport, storage, combustibility and emission as compared to traditional fuel due to its solid nature and smaller size. Biomass wood pellets contain 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 sell 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 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 a limited number of trading companies sourcing biomass wood pellets from the Group for selling to their downstream customers. Most customers of the Group's biomass wood pellets are located in Eastern China and Southern China regions. The Group has a smaller customer base for the biomass wood pellets and there were totally 18 customers of biomass wood pellets for the year ended 31 December 2019, out of which the five largest customers contributed for approximately 77.3% of the total revenue of biomass wood pellets.

RECENT DEVELOPMENT

Since January 2020, there has been a global outbreak of a novel coronavirus disease ("COVID-19") affecting many countries, including the PRC. A series of precautionary and control measures have been adopted and continued to be in place across the PRC. It has a temporary but not material impact on the Group's production activities. The Group's production capacity has resumed to a reasonable level since March 2020. There has been some cancellation and postponement of purchase orders on plywood products from the Group's customers since the outbreak of COVID-19 and up to the date of this announcement. Accordingly, there is temporary impact from COVID-19 to the Group's financial performance. The Group will take appropriate measures as necessary and make further announcement(s) as and when appropriate.

OUTLOOK

The Central People's Government of the PRC has taken a number of environmental measures against pollution in the 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 causes a higher production cost for the manufacturing companies. Consequently, the Group resulted in a drop in gross profit margin over the past three years 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 plywood products and biomass wood pellets are considered as raw materials for production by domestic manufacturers. Those manufacturers are facing uncertainty on the market growth. Accordingly, the Group finds difficulties to raise the selling price of the Group's products and shift the increasing production costs to those manufacturers being the Group's customers. Management is endeavouring to improve the profitability of the sales of the Group's products, including but not limited to, exploring for other local suppliers with lower charges on raw materials and also customers from other regions in PRC outside its existing sales network that can have more room for the negotiation on selling prices of the Group's products.

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. In addition, there have been measures from local Government departments of certain cities in PRC to promote use of natural gas and reduce the use of combustion boiler, in which biomass wood pellets are burned to generate energy, for even better local environmental protection. Such measures have negative impact to the demand of the Group's biomass wood pellets. The Group recorded a significant drop in the sales of the biomass wood pellets during the year 31 December 2019. The Group is currently exploring other business opportunities and may consider closing down the business on biomass wood pellets should we identify any other options for bringing higher value to the shareholders of the Company.

MATERIAL ACQUISITIONS AND DISPOSALS

The group did not carry out any material acquisition or disposal of any subsidiary, associate or joint venture during the year ended 31 December 2019.

FINANCIAL REVIEW

Revenue

During the year ended 31 December 2019, the Group had a drop in revenue of approximately 26.9%, from approximately RMB435.7 million for the year ended 31 December 2018 to approximately RMB318.5 million for the year ended 31 December 2019.

There was a drop in the sales of both plywood products and biomass wood pellets for the year ended 31 December 2019 as compared to the year ended 31 December 2018.

Revenue generated from sales of plywood products dropped from approximately RMB378.7 million for the year ended 31 December 2018 to approximately RMB305.5 million for the year ended 31 December 2019 representing a drop of approximately 19.3%. Such a decrease in sales was mainly due to (i) the decrease in the sales prices of the products; and (ii) the decrease in sales volume as a result of the Sino-US trade war and economic downturn in the PRC.

The sales of the Group's biomass wood pellets for the year ended 31 December 2019 dropped to approximately RMB13.0 million from approximately RMB56.9 million for the year ended 31 December 2018, representing a drop of approximately 77.1%. Such a decrease in sales was mainly due to the decrease in sales volume as a result of the environmental protection policy of restricting use of the combustion boilers in certain regions, resulting in a decreased demand in the Group's biomass wood pellets.

Gross profit/(loss)

The overall gross profit margin of the Group dropped for the year ended 31 December 2019, changing from approximately 12.7% for the year ended 31 December 2018 to approximately negative 9.0% for the year ended 31 December 2019. The decrease in gross profit margin was mainly due to the (i) the decrease in the sales prices of the Group's plywood products during the year ended 31 December 2019 as a result of the Sino-US trade war and economic downturn in the PRC; (ii) the significant increase in the purchase costs of poplar plywood cores and wood residue, which are the major raw materials utilised for the Group's production of plywood products and biomass wood pellets respectively, during the year ended 31 December 2019 due to a number of environmental protection measures being implemented by the Central People's Government of the PRC resulting in the increased production costs being transferred to the Group by its suppliers; (iii) the impairment loss of the Group's property, plant and equipment for the production lines of plywood products and biomass wood pellets of approximately RMB14.0 million as a result of the declining market of plywood products and biomass wood pellets during the year ended 31 December 2019; and (iv) the loss on write-down of the Group's inventories of plywood products of approximately RMB6.0 million to their net realisable values as a result of the decrease in their sales prices during the year ended 31 December 2019.

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 generated from the production of the Group's plywood products.

The decrease in other income during the year ended 31 December 2019 was mainly due to less refund of value-added tax received during the year ended 31 December 2019. Since there was a decrease in sales of biomass wood pellets resulting in less production cost during the year ended 31 December 2019, 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 2019.

Other losses — net

Other losses — net, representing the non-recurrent losses recorded during the year. Such losses were mainly due to the loss attributable to the write-off of some of the Group's inventories of plywood products totalling approximately RMB8.1 million during the year ended 31 December 2019 due to the damage caused by flooding in July 2019 (details of which were set out in the Company's voluntary announcement dated 12 August 2019).

Selling and distribution expenses

There was an increase of approximately RMB0.3 million in selling and distribution expenses for the year ended 31 December 2019, increasing from approximately RMB0.9 million for the year ended 31 December 2018 to approximately RMB1.2 million for the year ended 31 December 2019. Such an increase was mainly due to the increase of transportation spending for distribution of products to our customer for the year ended 31 December 2019.

Administrative expenses

There was a slight increase of approximately RMB0.5 million in administrative expenses for the year ended 31 December 2019, increasing from approximately RMB26.2 million for the year ended 31 December 2018 to approximately RMB26.7 million for the year ended 31 December 2019.

Net impairment losses on financial assets

Balance representing impairment losses for trade receivables and other receivables recorded during the year. An additional impairment loss for trade receivables of approximately RMB0.5 million and an additional impairment loss for other receivables of approximately RMB10.8 million was recorded respectively.

The Group established a new subsidiary, Dasen Heze Advanced Materials Technology Co., Ltd. (“Dasen Advanced Materials”) in 2017 and entered into an cooperation agreement with the local government in Goucunji town, Chengwu County, Shandong Province, the PRC, on 17 October 2017. Pursuant to the agreement, i) Dasen Advanced Materials will invest for the acquisition of land use right of three pieces of lands in Goucunji town for the construction of new factories for the manufacturing of plywood veneers which is one of the key raw materials for the manufacturing of the Group’s plywood products, and ii) the Goucunji town government will assist Dasen Advanced Materials to get the land use right of three pieces of lands in Goucunji town before 30 June 2018 and will find a contractor to build the factories for Dasen Advanced Materials. The acquisition of the land lot as promised by the local government did not proceed until 24 December 2018, by then Dasen Advanced Materials entered into a land purchase agreement with Chengwu County Natural Resources and Planning Bureau for the land use right of two pieces of land at a consideration of RMB6.59 million. In addition, at the request of the Goucunji town government, the Group commenced the construction of the factory buildings on the land to be acquired and invested RMB21,588,000, of which RMB21,239,000 was recorded in construction in progress and RMB349,000 was recorded in prepayments of the Group at 31 December 2018.

However, the global economic downturn and the intensified Sino-U.S. Trade in 2019 affected the export sales of furnitures of the plywood customers of the Group, the Group’s sales of plywood declined significantly in 2019 and the Group recorded negative gross margin in the second half of 2019. The management decided to terminate the investment plan of Dasen Advanced Materials, and did not proceed with the completion of the purchase of the two land lots. As a result, the deposit of RMB3.3 million for tendering the land auction for the purchase of the two land lots was forfeited, and recorded as a loss in “Other losses — net” (Note) during the year ended 31 December 2019.

The land lots were subsequently sold to a third party through land auction completed in December 2019. Since the land lots were sold to other party, the buildings already constructed thereon no longer belongs to Dasen Advanced Materials, the Group further negotiated with the Goucunji town government and obtained the government’s agreement to return the costs of construction already incurred by Dasen Advanced Materials. Accordingly, the relevant amount recorded in construction in progress of RMB21,239,000 and in prepayments of RMB349,000 were reclassified to other receivable as at 31 December 2019, and a provision of RMB10,794,000 was made against the receivable balance to cover the potential unrecoverable amount.

Net finance costs

There was a slight decrease in net finance costs of approximately RMB0.3 million for the year ended 31 December 2019, from approximately RMB5.8 million for the year ended 31 December 2018 to approximately RMB5.5 million for the year ended 31 December 2019. Such a decrease in the finance costs was mainly due to the net effects of the followings: (i) the decrease in net foreign exchange loss arising from the borrowings denominated in HK\$ of approximately RMB0.5 million as a result of the appreciation of RMB against HK\$ during the year ended 31 December 2019; (ii) less interests charged by local financial institutions in the PRC of approximately RMB0.7 million due to lower bank borrowings during the year ended 31 December 2019; and (iii) the increase in finance costs of approximately RMB0.8 million incurred for bonds as a result of the higher average outstanding amount of bonds issued during the year ended 31 December 2019.

Income tax expense

There was a decrease of approximately RMB13.4 million in the income tax expenses for the year ended 31 December 2019, from approximately RMB7.3 million for the year ended 31 December 2018 to approximately negative RMB6.1 million for the year ended 31 December 2019, which was mainly due to the decrease in the operating profits earned in China for the year ended 31 December 2019.

Total comprehensive income attributable to Shareholders

There was a decrease of approximately 492.2% in the total comprehensive income attributable to Shareholders of the Company for the year ended 31 December 2019, from approximately RMB19.3 million for the year ended 31 December 2018 to approximately negative RMB75.6 million for the year ended 31 December 2019, which was mainly due to the decrease in the gross profit of both plywood products and biomass wood pellets, the loss on write-off of some of the Group's plywood products due to the damage caused by the flooding, the loss on impairment of the Group's items of property, plant and equipment for the production lines of the Group's plywood products and biomass wood pellets as a result of the declining market of the biomass wood pellets, and loss on write-down of the Group's plywood products to their net realisable values.

Property, plant and equipment

During the year ended 31 December 2019, the Group has contributed approximately RMB0.8 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.

As at 31 December 2019, items of property, plant and equipment with carrying amount of approximately RMB41.2 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 2019 comprised raw materials, work-in-progress and finished goods for both plywood products and biomass wood pellets. The decrease in the inventory balance of approximately RMB25.3 million, from approximately RMB108.0 million as at 31 December 2018 to approximately RMB82.7 million as at 31 December 2019, was mainly due to (i) the loss on write-down of the Group's inventories of plywood products to their net realisable values as a result of the decrease in their sales prices; and (ii) less work in progress and finished goods of plywood products as at 31 December 2019 due to less purchase orders received by the end of December 2019 and less estimated sales in the first quarter of 2020.

Trade receivables

Trade receivables balance as at 31 December 2019 mainly represented outstanding balance from customers of our plywood products. There was a decrease in trade receivables balance before provision for impairment of approximately RMB12.7 million, from approximately RMB195.5 million as at 31 December 2018 to approximately RMB182.8 million as at 31 December 2019. The decrease in trade receivables balance was mainly due to the decrease of revenue, which mainly resulted from the Sino-US trade war and economic downturn in the PRC during the year ended 31 December 2019.

A specific impairment assessment has been performed to most of the Group's major customers, and accordingly, approximately RMB8.3 million of provision for impairment of trade receivable balances was recorded as at 31 December 2019.

Cash and cash equivalents

There was an increase in the balance of cash and cash equivalents of approximately RMB2.7 million from approximately RMB48.3 million as at 31 December 2018 to approximately RMB51.0 million as at 31 December 2019. The increase in cash and cash equivalents balance was mainly due to net effects of the followings: (i) the net proceed from issuance of Shares during the year ended 31 December 2019 of approximately RMB27.9 million; and (ii) the repayment of bank borrowings.

Borrowings

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

As at 31 December 2019, the Group had bank borrowings of RMB29.8 million advanced from banks located in China, decreasing from RMB41.0 million as at 31 December 2018. 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 RMB20.2 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 2019, the Group has outstanding bonds with a total principal amount of approximately RMB30.0 million. The maturity periods of the bonds issued by the Group range from one year 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.

Gearing ratio

As at 31 December 2019, the gearing ratio of the Group, calculated based on the total interest-bearing debts divided by the total equity as at the end of the respective year and multiplied by 100%, was approximately 14.8% (2018: approximately 15.3%).

Foreign currency risk

A substantial majority of our assets and liabilities are denominated in RMB, except for the following items:

- (i) Certain bank balances are denominated in USD and HKD.

The Group had not experienced any material effects on its operation or liquidity as a result of fluctuations in currency exchange rates and had not adopted any currency hedging policy or any hedging instrument during the year ended 31 December 2019. The Group will continue to monitor foreign currency risk exposure and will consider hedging significant foreign currency risk should the need arise.

FINANCIAL INFORMATION

Consolidated statement of comprehensive income

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	3	318,542	435,664
Cost of sales	6	<u>(347,194)</u>	<u>(380,171)</u>
Gross (loss)/profit		(28,652)	55,493
Selling and distribution expenses	6	(1,152)	(861)
Administrative expenses	6	(26,651)	(26,190)
Net impairment losses on financial assets		(11,307)	(1,590)
Other income	4	4,166	5,957
Other losses-net	5	<u>(12,579)</u>	<u>(356)</u>
Operating (loss)/profit		(76,175)	32,453
Finance income	7	8	9
Finance costs	7	<u>(5,493)</u>	<u>(5,840)</u>
Finance costs – net	7	<u>(5,485)</u>	<u>(5,831)</u>
(Loss)/Profit before income tax		(81,660)	26,622
Income tax (credit)/expense	8	<u>6,079</u>	<u>(7,349)</u>
(Loss)/Profit for the year		(75,581)	19,273
Other comprehensive income		<u>–</u>	<u>–</u>
Total comprehensive (loss)/income for the year and attributable to the shareholders of the Company		<u>(75,581)</u>	<u>19,273</u>
(Losses)/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	<u>(8.05)</u>	<u>2.15</u>

Consolidated balance sheet*As at 31 December 2019*

	<i>Notes</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Assets			
Non-current assets			
Land use rights		–	24,549
Right-of-use assets		27,270	–
Property, plant and equipment		119,675	161,089
Deferred income tax assets		7,280	1,707
Prepayments	11	<u>2,351</u>	<u>5,939</u>
		<u>156,576</u>	<u>193,284</u>
Current assets			
Inventories	10	82,682	107,990
Trade and other receivables	11	212,426	193,743
Cash and cash equivalents		<u>51,007</u>	<u>48,298</u>
		<u>346,115</u>	<u>350,031</u>
Total assets		<u>502,691</u>	<u>543,315</u>
Equity			
Equity attributable to the shareholders of the Company			
Share capital	12	8,592	7,906
Share premium	12	212,502	185,321
Other reserves	13	52,942	52,942
Retained earnings		<u>130,537</u>	<u>206,118</u>
Total equity		<u>404,573</u>	<u>452,287</u>
Liabilities			
Non-current liabilities			
Borrowings	14	22,736	23,847
Deferred income		342	369
Deferred income tax liabilities		<u>–</u>	<u>506</u>
		<u>23,078</u>	<u>24,722</u>

		2019	2018
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Liabilities (continued)			
Current liabilities			
Trade and other payables	15	30,288	12,653
Current income tax liabilities		7,177	8,274
Borrowings	14	37,103	45,379
Lease liabilities		472	—
		75,040	66,306
Total liabilities		98,118	91,028
Total equity and liabilities		502,691	543,315

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.

These consolidated financial statements are presented in Renminbi (“RMB”), unless otherwise stated.

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 2019.

(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 2019:

- IFRS 16 Leases
- Prepayment Features with Negative Compensation — Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures — Amendments to IFRS 28
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Plan Amendment, Curtailment or Settlement — Amendments to IFRS 19
- Interpretation 23 Uncertainty over Income Tax Treatments

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

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

The Group had to change its accounting policies and make certain adjustments following the adoption of IFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. 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.

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements.

As indicated in note 2(ii) above, the group has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.83%.

(i) *Practical expedients applied*

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

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

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

(ii) *Measurement of lease liabilities*

	2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	1,037
Discounted using the lessee's incremental borrowing rate of at the date of initial application	973
(Less): short-term leases recognised on a straight-line basis as expense	<u>(44)</u>
Lease liability recognised as at 1 January 2019	<u>929</u>
Of which are:	
Current lease liabilities	497
Non-current lease liabilities	<u>432</u>
	<u>929</u>

(iii) *Measurement of right-of-use assets*

The right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	31 December 2019 RMB'000	1 January 2019 RMB'000
Properties	<u>432</u>	<u>929</u>
Total right-of-use assets	<u>432</u>	<u>929</u>

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase by RMB929,000
- lease liabilities – increase by RMB929,000

There was no impact on retained earnings on 1 January 2019.

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

(iii) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 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.

		Effective for accounting year beginning on or after
IFRS 17	Insurance Contracts	1 January 2022
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Amendments to IAS 1 and IAS 8	Definition of Material	1 January 2020
Amendments to IFRS 3	Definition of a Business	1 January 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

3. REVENUE

The revenue of the Group for the year ended 31 December 2019 is set out as follows:

	Years ended 31 December	
	2019 RMB'000	2018 RMB'000
Sales of plywood	305,503	378,729
Sales of biomass wood pellets	13,039	56,935
	<u>318,542</u>	<u>435,664</u>

4. OTHER INCOME

	Years ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of plywood core	2,683	2,991
Refund of value added tax (“VAT”) (<i>Note</i>)	1,456	2,692
Amortisation of deferred income related to government grants	27	24
Government grants related to expenses	—	250
	<u>4,166</u>	<u>5,957</u>

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	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Impairment loss of inventories due to flooding (<i>Note</i>)	8,107	—
Loss due to forfeiture of a land purchase	3,300	—
Net losses from disposal of property, plant and equipment	710	—
Net foreign exchange (gains)/losses	(81)	294
Donations	—	5
Others	543	57
	<u>12,579</u>	<u>356</u>

Note: In June 2019, the Group’s subsidiary’s warehouses in Heze town, Chengwu County were flooded due to the continuous rainstorm in Chengwu County, Heze City, Shandong Province caused by a strong typhoon. The inventories with book value of RMB9,125,000 were damaged and sold as scrap and incurred a loss of RMB8,107,000.

6. EXPENSES BY NATURE

	Years ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials and consumables used	299,639	382,620
Changes in inventories of finished goods and work-in-progress	16,643	(23,986)
Employee benefit expenses	19,411	28,001
Provision for impairment charges for property, plant and equipment	13,977	—
Depreciation	6,067	5,849
Provision for inventory write-down	5,970	—
Amortisation of right-of-use assets/land use rights	1,107	557
Utilities	1,967	4,971
Taxes and levies	4,978	3,133
Audit fees	1,150	1,700
Other expenses	4,088	4,377
	<u> </u>	<u> </u>
Total cost of sales, selling and distribution expenses and administrative expenses	<u>374,997</u>	<u>407,222</u>

7. FINANCE INCOME AND COSTS

	Years ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income:		
— Interest income on bank deposits	<u>(8)</u>	<u>(9)</u>
Finance costs:		
— Interest expense on borrowings from banks	2,295	2,956
— Interest expense on bonds	2,485	1,697
— Net foreign exchange losses on financing activities	679	1,187
— Interest charges paid for lease liabilities	<u>34</u>	<u>—</u>
Subtotal	<u>5,493</u>	<u>5,840</u>
Net finance costs	<u>5,485</u>	<u>5,831</u>

8. INCOME TAX (CREDIT)/EXPENSE

	Years ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax expense	—	7,656
Deferred income tax credit	<u>(6,079)</u>	<u>(307)</u>
Total income tax (credit)/expense	<u><u>(6,079)</u></u>	<u><u>7,349</u></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% (2018: 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% (2018: 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 2019 in the foreseeable future.

8. INCOME TAX (CREDIT)/EXPENSE (continued)

The tax on the Group's (loss)/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	
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
(Loss)/Profit before income tax	<u>(81,660)</u>	<u>26,622</u>
Tax calculated at domestic tax rates applicable to profits in the respective year	(20,415)	6,656
Tax effects of:		
— Expenses not deductible for tax purpose	3,353	1,063
— Income not subject to tax	(1,005)	(1,196)
— Unrecognised tax losses	<u>11,988</u>	<u>826</u>
Tax (credit)/charge	<u>(6,079)</u>	<u>7,349</u>

9. (LOSSES)/EARNINGS PER SHARE

(a) Basic

Basic earnings per share for the years ended 31 December 2019 and 2018 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	
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
(Loss)/Profit attributable to the shareholders	(75,581)	19,273
Weighted average number of ordinary shares in issue (thousands)	<u>938,712</u>	<u>896,400</u>
Basic (losses)/earnings per share (RMB cents per share)	<u>(8.05)</u>	<u>2.15</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 2019 and 2018, 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	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	25,764	28,459
Work-in-progress	30,301	36,581
Finished goods	32,587	42,950
	<u>88,652</u>	<u>107,990</u>
Provision (<i>Note</i>)	<u>(5,970)</u>	<u>—</u>
	<u>82,682</u>	<u>107,990</u>

During the years ended 31 December 2019, the cost of inventories recognised in cost of sales and administrative expenses were RMB304,069,000 and RMB12,213,000 (2018: RMB347,208,000 and RMB11,426,000), respectively.

11. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	182,828	195,495
Less: Provision for impairment	<u>(8,334)</u>	<u>(7,822)</u>
Trade receivables — net	174,494	187,673
Prepayments		
— Prepayments for raw materials	26,846	5,067
— Prepayments for land use rights	—	5,939
— Prepayment for property, plant and equipment	2,351	—
Other receivables	21,881	1,003
Less: allowance for impairment of other receivables	<u>(10,795)</u>	<u>—</u>
	214,777	199,682
Less: Prepayment-non-current	<u>(2,351)</u>	<u>(5,939)</u>
	<u>212,426</u>	<u>193,743</u>

11. TRADE AND OTHER RECEIVABLES (continued)

As at 31 December 2019 and 2018 the aging analysis of the trade receivables based on invoice date was as follows:

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 3 months	77,568	116,517
4 to 6 months	39,707	47,059
7 to 12 months	36,491	9,429
Over 1 year	<u>29,062</u>	<u>22,490</u>
	<u>182,828</u>	<u>195,495</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 three 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.

The carrying amounts of the Group's trade and other receivables were 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 <i>RMB'000</i>	Share premium <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2018				
And at 31 December 2018	<u>896,400</u>	<u>7,906</u>	<u>185,321</u>	<u>193,227</u>
At 1 January 2019	896,400	7,906	185,321	193,227
Placing of new shares (a)	<u>78,000</u>	<u>686</u>	<u>27,181</u>	<u>27,867</u>
At 31 December 2019	<u><u>974,400</u></u>	<u><u>8,592</u></u>	<u><u>212,502</u></u>	<u><u>221,094</u></u>

12. SHARE CAPITAL AND SHARE PREMIUM (continued)

Notes:

- (a) On 28 June 2019, 78,000,000 shares of the Company were issued at a price of HK\$0.41. The gross proceeds raised was HK\$31,980,000 (approximately RMB28,114,000). The transaction costs of RMB247,000 were debited to the share premium account.

The total number of authorised share capital of the Company comprised 3,000,000,000 ordinary shares with a par value of HKD0.01 each as at 31 December 2019 and 2018.

13. OTHER RESERVES

	Capital reserves (a) RMB'000	Statutory reserves (b) RMB'000	Total RMB'000
At 1 January 2018	26,889	23,999	50,888
Profit appropriation to statutory reserves	—	2,054	2,054
At 31 December 2018, 1 January 2019 and at 31 December 2019	<u>26,889</u>	<u>26,053</u>	<u>52,942</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.

For the year ended December 31, 2019, PRC subsidiaries did not make appropriations to statutory reserves due to the operating losses during the year ended 31 December.

14. BORROWINGS

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Non-current		
Bonds (a)	<u>22,736</u>	<u>23,847</u>
Current		
Bonds within one year (a)	7,303	4,379
Short-term bank borrowings — secured (b)	<u>29,800</u>	<u>41,000</u>
	<u>37,103</u>	<u>45,379</u>
Total borrowings	<u><u>59,839</u></u>	<u><u>69,226</u></u>

(a) Bonds:

During the year ended 31 December 2019, the Company issued bonds at a total par value of HK\$6,500,000 (equivalent of RMB5,701,000) with a fixed interest rate from 6% to 8% per annum. The bonds will mature in 1 year.

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 bond approximated its carrying amounts as at the balance sheet date.

As at 31 December 2019, the Group's bonds were repayable as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Within 1 year	7,303	4,379
Between 2 and 5 years	12,268	8,550
Over 5 years	<u>10,468</u>	<u>15,297</u>
	<u><u>30,039</u></u>	<u><u>28,226</u></u>

(b) Short-term bank borrowings

The Group's bank borrowings were secured by land use rights of the Group with net book value of RMB20,182,000 (2018: RMB22,415,000), plants of the Group with net book value of RMB41,235,000 (2018: RMB54,228,000), as at 31 December 2019. The borrowings were also supported by guarantees from related parties.

For the year ended 31 December 2019, the weighted average effective annual interest rate on borrowings from banks was 6.76% (2018: 7.61%) per annum.

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	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Other taxes payable (<i>Note</i>)	15,804	3,586
Employee benefit payables	5,185	3,066
Interest payable	931	772
Advances from customers	926	465
Trade payables	834	282
Others	6,608	4,482
	<u>30,288</u>	<u>12,653</u>

(a) Trade payable

As at 31 December 2019 and 2018 the aging analysis of the trade payables based on invoice date is as follows:

	As at 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	<u>834</u>	<u>282</u>

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.

(b) Other taxes payable

This represented value added tax ("VAT") and taxes and levies. The Group's sales and purchases are subject to output VAT payable on sales which is deductible by input VAT deductible on purchases, majority of which are purchases of raw wood materials for the production of plywood. The increase during 2019 was due to the change in the calculation of VAT deduction for the purchase of raw wood materials which is a kind of agricultural products and are subject to calculation of input VAT based on a percentage of plywood products. As a result, the Group's deductible input VAT was decreased by RMB11,555,000 which was not rechargeable to the suppliers, of which RMB7,143,000 was recorded as an increase in cost of goods sold in the comprehensive income statement and RMB4,412,000 was recorded as inventory as at 31 December 2019.

16. EVENTS AFTER THE BALANCE SHEET DATE

After the outbreak of Coronavirus Disease 2019 (“COVID-19 outbreak”) in early 2020, a series of precautionary and control measures have been and continued to be implemented across the china and other countries, including but not limited to, extension of the Chinese New Year holiday nationwide, postponement of work resumption after the Chinese New Year holiday in some regions, certain level of restrictions and controls over people travelling and traffic arrangements, quarantine of certain residents, heightening of hygiene and epidemic prevention requirements in factories and offices and encouraged social distancing, etc. It may have a temporary impact on the Group’s business and economics activities in some regions, but not to the extent of material. Hence, the financial effect cannot be reasonable estimated as of the date of financial statements and the Group will closely monitor and continue to evaluate the aforesaid impact. As at the date on which this announcement was authorised for issue, the Group was not aware of any material effect on the financial statements of the Group as a result of the COVID-19 outbreak.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019.

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 2019.

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 2019.

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 2019, 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 2019 has been reviewed by the audit committee of the Company.

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

Hong Kong, 31 March 2020

As at the date of this announcement, the executive Directors are Mr. KE Mingcai, Mr. CHAI Kaw Sing, Mr. WANG Songmao, Mr. WONG Ben, 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.