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

Interim Report

2017

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In case of any inconsistency between the English version and the Chinese version of this interim report, the English version shall prevail.

DEFINITIONS

In this interim report, 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 interim report, references to China do not include Taiwan, the Hong Kong Special Administrative Region of the People's Republic of China or the Macao Special Administrative Region of the People's Republic of China
"Company"	Da Sen Holdings Group Limited
"Director(s)"	the director(s) of the Company
"Group", "our Group", "we", "us" or "our"	the Company and its subsidiaries or, where the context so requires in respect of the period before the Company became the holding company of the present subsidiaries, the present subsidiaries of the Company and the business carried on by such subsidiaries or (as the case may be) their predecessors
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"RMB"	Renminbi Yuan, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of the Company, with a nominal value of HK$0.01 each
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

BOARD

Mr. KE Mingcai (*Chairman and executive Director*)
Mr. WANG Songmao (*Chief executive officer and executive Director*)
Mr. ZHANG Ayang (*Executive Director*)
Mr. WU Shican (*Executive Director*)
Mr. LIN Triomphe Zheng (*Independent non-executive Director*)
Mr. SHAO Wanlei (*Independent non-executive Director*)
Mr. WANG Yuzhao (*Independent non-executive Director*)

COMPANY SECRETARY

Mr. LAU Chung Wai (*FCPA (Practising)*)

AUDIT COMMITTEE

Mr. LIN Triomphe Zheng (*Chairman*)
Mr. SHAO Wanlei
Mr. WANG Yuzhao

REMUNERATION COMMITTEE

Mr. WANG Yuzhao (*Chairman*)
Mr. LIN Triomphe Zheng
Mr. SHAO Wanlei

NOMINATION COMMITTEE

Mr. SHAO Wanlei (*Chairman*)
Mr. KE Mingcai
Mr. WANG Yuzhao

RISK MANAGEMENT COMMITTEE

Mr. WU Shican (*Chairman*)
Mr. ZHANG Ayang
Mr. LIN Triomphe Zheng

AUTHORISED REPRESENTATIVES
(for the purpose of the Listing Rules)

Mr. KE Mingcai
Mr. LAU Chung Wai

EXTERNAL AUDITOR

PricewaterhouseCoopers
22nd Floor
Prince's Building
Central, Hong Kong

COMPLIANCE ADVISER

China Industrial Securities International Capital Limited

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room Nos. 2413-2415, 24th Floor
Sun Hung Kai Centre
No. 30 Harbour Road
Wan Chai, Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Economic Development Zone
Sunsi Town
Chengwu County, Heze City
Shandong Province, PRC

PRINCIPAL SHARE REGISTRAR

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

CORPORATE INFORMATION

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
No. 183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

China Construction Bank
Shanghai Pudong Development Bank
Bank of China (Hong Kong) Limited

STOCK CODE

1580

COMPANY'S WEBSITE

http://www.msdscn.com

BUSINESS REVIEW

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

The Group is strategically located in Heze City, Shandong Province in China for close access to the local abundant supply of poplars, being the Group's principal raw materials.

The Group also fully utilises raw materials and automated production lines to control the production costs and maintain a high environmental protection standard. The Group's current management team emphasizes stringent quality control in both plywood products and biomass wood pellets, raising the recognition among the customers continuously, making huge contribution to the business growth of the Group.

Plywood products

The Group's plywood products consist of furniture board (家具板), ecological plywood (生態板) (also known as melamine faced board (三聚氰胺貼面板)) and hardwood multi-layered board (實木多層板), which are mainly made of poplar. Customers usually use the Group's plywood products as materials for interior decoration or furniture making, and some customers trade the Group's plywood products to their downstream customers. Those three types of plywood products serve similar functions to customers of the Group and the main differences are on certain specifications, such as the level of moisture content, the hardness and the water resistance capability. The total revenue of the Group is mainly contributed by the sales of plywood products, which accounted for approximately RMB209.1 million, representing approximately 81.5% of the total revenue for the six months ended 30 June 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. In addition, the Group is one of the major customers in purchasing wood-based raw materials in Heze City, Shandong Province. Accordingly, the Group enjoys a stable and relatively lower cost of raw materials for the manufacture of plywood products.

Customers of the Group's plywood products are mainly end users, such as furniture manufacturers, equipment manufacturers, decoration or renovation companies and packing material producers, and there are also some trading companies sourcing plywood products from the Group for on-selling to their downstream customers with or without processing. Most customers of the Group's plywood products are located at Eastern China and Southern China regions. The Group maintains a large customer base for the plywood products and there were totally 87 customers of plywood products for the six months ended 30 June 2017, out of which the five largest customers contributed for less than 40% 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 utilises the wood residues generated internally during the production process of plywood products. The internally generated wood residues bring 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 60 customers of biomass wood pellets for the six months ended 30 June 2017, out of which the five largest customers contributed for less than 30% of the total revenue of biomass wood pellets.

Future development

Expansion of production capacities

The Group has made a sizable capital investment for the expansion of the production capacities for both plywood products and biomass wood pellets. The Group is currently in the process of the construction of the additional production facilities. It is expected that the new production facilities will be ready for operation by the end of the year 2017, providing additional production capacities to support the Group's business growth.

OUTLOOK

There is a trend of slowdown of economic growth in China. However, management of the Group believes that there would be a stable demand for the Group's products, the plywood products in particular, because customers of the Group source the Group's products mainly for producing non-high-end products, such as furniture and equipment with medium prices, and the market demand on those products are relatively stable in spite of the gradual change in the economy.

There is a recovery trend of the RMB against other foreign currencies over the past few months. Management of the Group observed that such recovery has no impact to the Group's customers who are running export businesses of wooden furniture and fixtures, and management of the Group estimates that those customers will have stable order sizes placed to the Group for the Group's plywood products as their raw materials for production.

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

The setup of the Group's first sales office in Fujian Province in China has been completed and is in operation. The Group secured new customers mainly through referral from existing customers and the participation in industry exhibitions to promote the Group's products in the past. Management of the Group believes that the new sales office would facilitate the Group in reaching new pool of customers in respective regions, boosting the sales of the Group in the near future.

FINANCIAL REVIEW

Revenue

During the six months ended 30 June 2017, the Group achieved an overall steady growth in revenue of approximately 23.1%, from approximately RMB208.5 million for the six months ended 30 June 2016 to approximately RMB256.6 million for the six months ended 30 June 2017.

The Group's plywood products had more contribution on the revenue growth of the Group for the six months ended 30 June 2017. Revenue arising from plywood products increased from approximately RMB159.2 million for the six months ended 30 June 2016 to approximately RMB209.1 million for the six months ended 30 June 2017, representing a growth rate of approximately 31.3%. Such growth was mainly because of the increased purchase orders from the Group's existing customers during the six months ended 30 June 2017.

The sales of the Group's biomass wood pellets for the six months ended 30 June 2017 was approximately RMB53.1 million, which maintained at a similar level as compared to the sales of approximately RMB52.5 million for the six months ended 30 June 2016.

Gross profit

The overall gross profit margin of the Group maintained at a similar level for the six months ended 30 June 2017, changing from approximately 22.0% for the six months ended 30 June 2016 to approximately 22.7% for the six months ended 30 June 2017.

Other income

Other income mainly represented income earned from refund of value-added tax arising from the sales of the Group's biomass wood pellets, 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 was mainly because of the timing difference in claiming the refund of value-added tax for the six months ended 30 June 2017.

Selling and distribution expenses

The selling and distribution expenses mainly represented employee benefit expenses incurred for the sales team and also the operating costs for the sales office located in Fujian Province for the six months ended 30 June 2017. The sales office in Fujian Province started operating in the second quarter of the year 2017, resulting in an increase in the selling and distribution expenses for the six months ended 30 June 2017.

Administrative expenses

There was an increase of approximately RMB5.8 million in administrative expenses for the six months ended 30 June 2017, increasing from approximately RMB10.8 million for the six months ended 30 June 2016 to approximately RMB16.6 million for the six months ended 30 June 2017. The Group incurred additional administrative expenses for the six months ended 30 June 2017 despite listing expenses savings of approximately RMB3.2 million for the six months ended 30 June 2017. Such increase was mainly due to additional research and development expenses of approximately RMB2.3 million incurred for the six months ended 30 June 2017, increasing from approximately RMB2.9 million for the six months ended 30 June 2016 to approximately RMB5.2 million for the six months ended 30 June 2017, mainly to support the product testing and modifications to meet customers' needs. Apart from the above, the Group also incurred losses of approximately RMB3.4 million arising from the impairment of trade receivables for the six months ended 30 June 2017. Management assessed the outstanding balances from customers as at 30 June 2017. After considering, amongst others, the financial condition of the customers, the aging of the outstanding balances and also the recent settlement records of the customers, impairment on specific trade receivables balance have been made. Notwithstanding, management will still strive to follow up all outstanding balances from customers to minimise the loss. In addition, the Group incurred additional employee benefit expenses of approximately RMB0.9 million for the six months ended 30 June 2017 arising from directors' remuneration for independent non-executive directors appointed on 25 November 2016 and also increased directors' remunerations for the existing executive directors for the six months ended 30 June 2017.

Finance expenses

There was an increase in finance expenses for the six months ended 30 June 2017, changing from approximately RMB2.2 million for the six months ended 30 June 2016 to approximately RMB2.6 million for the six months ended 30 June 2017. Such increase in the finance expenses was mainly due to a larger average borrowing amounts for the six months ended 30 June 2017 given similar average effective interest rates were enacted by financial institutions and individual bond subscribers for both periods.

Income tax expenses

There was an increase of approximately RMB0.4 million in the income tax expenses for the six months ended 30 June 2017, which was mainly due to our increase in the operating profits earned in China for the six months ended 30 June 2017.

The overall effective tax rate of the Group decreased from approximately 27.8% for the six months ended 30 June 2016 to approximately 26.3% for the six months ended 30 June 2017. Such decrease was mainly because there were some listing expenses incurred in Hong Kong for the six months ended 30 June 2016 which was not deductible for income tax purpose.

Total comprehensive income attributable to the Shareholders

There was an increase of approximately 12.3% in the total comprehensive income attributable to the Shareholders for the six months ended 30 June 2017, from approximately RMB26.8 million for the six months ended 30 June 2016 to approximately RMB30.1 million for the six months ended 30 June 2017, which was mainly contributed by the increase in sales of plywood products during the six months ended 30 June 2017.

Property, plant and equipment

The Group has two production facilities in Heze City, Shandong Province, China for the production of plywood products and biomass wood pellets, respectively. During the six months ended 30 June 2017, the Group has contributed capital investments of approximately RMB50.1 million in expanding the production capacities of both production facilities. Such expansion is expected to be completed within the year 2017 to provide new additional production capacities.

As at 30 June 2017, items of property, plant and equipment with carrying amount of approximately RMB57.3 million were pledged to the financial institution as security for some of the bank borrowings advanced to the Group.

Inventory

The Group inventory balances as at 30 June 2017 comprised of raw materials, work in progress and finished goods for both plywood products and biomass wood pellets. Increase in the inventory balance of approximately RMB29.8 million, from approximately RMB46.6 million as at 31 December 2016 to approximately RMB76.4 million as at 30 June 2017, was mainly due to more raw materials and finished goods of plywood products stored up as at 30 June 2017 to support the new sales office in Fujian Province, China, which has been in operation since the second quarter of the year 2017.

Trade receivables

Trade receivables balance as at 30 June 2017 mainly represented outstanding balance from customers of plywood products. There was an increase in trade receivables balance before allowance for impairment of approximately RMB35.0 million, from approximately RMB128.6 million as at 31 December 2016 to approximately RMB163.6 million as at 30 June 2017. In spite of the increase in the trade receivables balance, most of the receivables were still current in nature.

The Group has performed an impairment assessment on those aged outstanding balance from customers as at 30 June 2017. Some customers encountered financial difficulties, resulting a slowdown in settling the outstanding balances. A specific impairment assessment has been performed to most of the Group's major customers. After considering, amongst others, the financial condition of the customers, the aging of the outstanding the balances and also the recent settlement records of the customers, approximately RMB6.1 million of provision for impairment of trade receivables balance was recorded as at 30 June 2017. Notwithstanding, the Group is following up closely for all outstanding balances to minimise any losses of the Group.

Cash and cash equivalents

Upon the successful listing of the Shares on the Stock Exchange on 19 December 2016, the Group has received net proceeds of approximately RMB110.0 million, which strengthened the liquidity level of the Group. During the six months ended 30 June 2017, the Group has utilised approximately RMB50.6 million for the capital investments in the production facilities of the Group to expand the production capacities, and also spent approximately RMB29.1 million for the purchase of raw materials and the production of plywood products to maintain a higher level of stocks after the sales office in Fujian Province, China has started operating since the second quarter of the year 2017.

Borrowings

The source of financing of the Group was mainly from banks. As at 30 June 2017, the Group had bank borrowings of RMB55 million advanced from banks located in China. All of the bank borrowings were current in nature and subject to renewal upon maturity. Certain items of property, plant and equipment and also the land use rights with carrying amounts of approximately RMB80.2 million were pledged to some of the banks to secure the bank borrowings advanced to the Group. There were repayments of some bank borrowings of RMB29 million during the six months ended 30 June 2017 upon their expiries. The Group is currently negotiating better borrowing terms with banks and it is expected that there will be some additional borrowings in the foreseeable future if the Group is offered more favourable terms from lenders to support the steady growth of the Group's existing business.

In addition to the bank borrowings, the Group started issuing long-term straight bonds to some individuals as another channel of financing to the Group. Up to 30 June 2017, the Group has issued bonds with a total principal amount of approximately RMB12.2 million. The maturity periods of the bonds issued by the Group range from 3.5 years to 7.5 years. The Group considers it as a supplement to the Group's short-term bank borrowings to support the Group's long-term expansion.

All of the borrowings were arranged at fixed interest rates.

Foreign exchange risk

The Directors do not consider the exposure to foreign exchange risk significant to the Group's operation as the Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. Therefore, the Group has not used any financial instruments to hedge its exposure to foreign exchange risk for the six months ended 30 June 2017.

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to Shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of the bank borrowings and dividends paid to Shareholders, issue new Shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total equity. Total debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the condensed consolidated interim balance sheets). Total equity is 'equity' as shown in the condensed consolidated interim balance sheet.

The gearing ratios as at 30 June 2017 and 31 December 2016 were as follows:

	As at 30 June 2017 RMB'000	As at 31 December 2016 RMB'000
Total debt	66,764	85,023
Total equity	337,342	291,787
Gearing ratio	20%	29%

The decrease in gearing ratio during the six months ended 30 June 2017 was mainly because of the repayment of some bank borrowings during the six months ended 30 June 2017, and also the increase in the equity amount resulting from the exercise of the over-allotment option under the initial public offering of the Shares and the operating profit earned during the six months ended 30 June 2017.

COMPLIANCE

The Company has applied the principles and complied with the applicable code provisions in the Corporate Governance Code contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2017.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding Directors' securities transactions.

All Directors have confirmed that they have complied with the standards set out in the Model Code throughout the six months ended 30 June 2017.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the unaudited interim financial information of the Group for the six months ended 30 June 2017 including the accounting principles and practices adopted by the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

At 30 June 2017, the interests and short positions of the Directors and chief executive in the share capital and underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in Shares:

	Number of Shares held, capacity and nature of interest				
Name of Director	**Directly beneficially owned**	**Through spouse or minor children**	**Interest in persons acting in concert** *(note 1)*	**Total**	**Percentage of the Company's share capital**
KE Mingcai	121,449,600	—	218,599,200	340,048,800	45.52%
WANG Songmao	52,056,000	—	287,992,800	340,048,800	45.52%
ZHANG Ayang *(note 2)*	—	340,048,800	—	340,048,800	45.52%
WU Shican	24,300,000	—	315,748,800	340,048,800	45.52%

Notes:

1. Pursuant to an agreement (the "Concert Party Agreement") dated 3 March 2016 and entered into among KE Mingcai, CAI Jinxu, WANG Songmao, LIN Qingxiong, WU Shican and WU Haiyan, they have agreed on certain arrangements pertaining to their shareholdings in the Company. Pursuant to the SFO, since each of KE Mingcai, WANG Songmao and WU Shican is a party to the Concert Party Agreement, each of KE Mingcai, WANG Songmao and WU Shican is deemed to be interested in the Shares which the other parties to the Concert Party Agreement are interested in.

2. ZHANG Ayang is the spouse of WU Haiyan and he is deemed to be interested in these Shares under the SFO.

Save as disclosed above, as at 30 June 2017, none of the Directors and chief executive had registered an interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

At 30 June 2017, the following interests and short positions of 5% or more of the share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

	Number of Shares held, capacity and nature of interest				
Name	Directly beneficially owned	Through a controlled corporation	Interest in persons acting in concert *(note 1)*	Total	Percentage of the Company's share capital
CAI Jinxu	69,393,600	—	270,655,200	340,048,800	45.52%
LIN Qingxiong	41,637,600	—	298,411,200	340,048,800	45.52%
WU Haiyan	31,212,000	—	308,836,800	340,048,800	45.52%
SO Chi On *(note 2)*	4,000,000	32,800,000	—	36,800,000	5.11%

Notes:

1. Pursuant to the Concert Party Agreement, KE Mingcai, CAI Jinxu, WANG Songmao, LIN Qingxiong, WU Shican and WU Haiyan have agreed on certain arrangements pertaining to their shareholdings in the Company. Pursuant to the SFO, since each of CAI Jinxu, LIN Qingxiong and WU Haiyan is a party to the Concert Party Agreement, each of CAI Jinxu, LIN Qingxiong and WU Haiyan is deemed to be interested in the Shares which the other parties to the Concert Party Agreement are interested in.

2. Such information is extracted from the individual substantial shareholder notice of SO Chi On filed on 5 January 2017 as shown on the website of the Stock Exchange, according to which SO Chi On (i) is the beneficial owner of 4,000,000 Shares; and (ii) owned 100% interest in Soul Capital Limited, which in turn is interested in 32,800,000 Shares.

EMOLUMENT POLICY

The Group had 613 employees in Hong Kong and the PRC as at 30 June 2017. The total salaries and related costs granted to employees amounted to approximately RMB13.6 million for the six months ended 30 June 2017.

The Group's remuneration policy, bonus and share option scheme determines benefits of employees (including Directors) based on the duties and performance of each individuals. The Group has also participated in the mandatory provident fund retirement benefit scheme in Hong Kong, and the central pension scheme operated by the local municipal government in the PRC.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Shareholders, and any non-controlling shareholder in the Company's subsidiaries.

At no time during the six months ended 30 June 2017 were rights to acquire benefits by means of the acquisition of Shares or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

As at 31 December 2016 and 30 June 2017, the Company did not have share options outstanding under the Scheme.

DIRECTORS' REMUNERATION

During the six months ended 30 June 2017, the Group has reviewed Directors' remuneration. After discussion with and approval by the Company's remuneration committee and the Board, adjustments have been made on the remuneration of certain Directors.

The adjusted annual remuneration of certain Directors is set out below:

	HK$
KE Mingcai	600,000
WANG Songmao	396,000
ZHANG Ayang	396,000
WU Shican	396,000

The adjusted annual remuneration of the above Directors are fixed remuneration and covered by service contracts entered into with the Company.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2017.

DIVIDENDS

The Board resolved not to declare any interim dividend in respect for the six months ended 30 June 2017.

羅兵咸永道

TO THE BOARD OF DIRECTORS OF DA SEN HOLDINGS GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated interim financial information set out on pages 18 to 42, which comprises the condensed consolidated interim balance sheet of Da Sen Holdings Group Limited (the "Company") and its subsidiaries (together, the "Group") as of 30 June 2017 and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 August 2017

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Note	Unaudited	Audited
		Six months ended 30 June	
		2017	2016
		RMB'000	RMB'000
Revenue	6	256,614	208,459
Cost of sales		(198,250)	(162,513)
Gross profit		58,364	45,946
Selling and distribution expenses		(759)	(491)
Administrative expenses		(16,638)	(10,846)
Other income		3,466	4,854
Other losses		(1,126)	(225)
Operating profit	6, 7	43,307	39,238
Finance income		15	3
Finance expenses		(2,551)	(2,192)
Finance expenses – net		(2,536)	(2,189)
Profit before income tax		40,771	37,049
Income tax expense	8	(10,720)	(10,293)
Profit for the period attributable to the shareholders		30,051	26,756
Earnings per share attributable to the shareholders			
(expressed in RMB cents per share)			
– Basic and diluted	9	4.03	4.95
Other comprehensive income		—	—
Total comprehensive income for the period and attributable to the shareholders		30,051	26,756

The notes on pages 23 to 42 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS OF 30 JUNE 2017

	Note	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
Assets			
Non-current assets			
Land use rights	10	**23,245**	23,300
Property, plant and equipment	10	**147,131**	99,813
Deferred income tax assets	16	**1,419**	1,071
		171,795	124,184
Current assets			
Inventories		**76,374**	46,581
Trade and other receivables	11	**162,132**	128,148
Cash and cash equivalents		**31,503**	127,690
		270,009	302,419
Total assets		**441,804**	426,603
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	12	**6,635**	6,393
Share premium	12	**111,012**	95,750
Capital and other reserves		**45,126**	45,126
Retained earnings		**174,569**	144,518
Total equity		**337,342**	291,787

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS OF 30 JUNE 2017

	Note	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	13	**11,764**	—
Deferred income	15	**404**	417
		12,168	417
Current liabilities			
Trade and other payables	14	**14,394**	29,905
Current income tax liabilities		**22,900**	19,471
Borrowings	13	**55,000**	85,023
		92,294	134,399
Total liabilities		**104,462**	134,816
Total equity and liabilities		**441,804**	426,603

The notes on pages 23 to 42 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Unaudited				
	Equity attributable to the shareholders				
	Share capital (Note 12) RMB'000	Share premium (Note 12) RMB'000	Capital and other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2017	**6,393**	**95,750**	**45,126**	**144,518**	**291,787**
Total comprehensive income					
Profit for the period	—	—	—	**30,051**	**30,051**
Transactions with owners					
Issue of new shares (Note 12)	**242**	**15,262**	—	—	**15,504**
Balance at 30 June 2017	**6,635**	**111,012**	**45,126**	**174,569**	**337,342**

	Audited				
	Equity attributable to the shareholders				
	Share capital (Note 12) RMB'000	Share premium (Note 12) RMB'000	Capital and other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2016	—	—	38,632	97,781	136,413
Total comprehensive income					
Profit for the period	—	—	—	26,756	26,756
Balance at 30 June 2016	—	—	38,632	124,537	163,169

The notes on pages 23 to 42 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Note	Unaudited	Audited
		Six months ended 30 June	
		2017	2016
		RMB'000	RMB'000
Cash flows from operating activities			
Cash used in operations		(33,240)	(12,692)
Interest received		15	3
Interest paid		(2,551)	(1,937)
Income tax paid		(7,639)	(5,726)
Cash flows from operation activities - net		(43,415)	(20,352)
Cash flows from investing activities			
Purchases of property, plant and equipment		(50,914)	(1,734)
Purchase of land use rights	10	(199)	—
Cash flows from investing activities - net		(51,113)	(1,734)
Cash flows from financing activities			
Net proceeds from issuance of ordinary shares	12	15,504	—
Proceeds from borrowings		73,764	61,000
Repayments of borrowings		(91,000)	(38,000)
Proceeds from borrowing from a shareholder	17	—	338
Initial public offering costs		—	(1,933)
Cash flows from financing activities - net		(1,732)	21,405
Net decrease in cash and cash equivalents		(96,260)	(681)
Cash and cash equivalents at beginning of the period		127,690	9,006
Exchange gains		73	—
Cash and cash equivalents at end of the period		31,503	8,325

The notes on pages 23 to 42 form an integral part of this condensed consolidated interim financial information.

1 GENERAL INFORMATION

Da Sen Holdings Group Limited (the "Company") and its subsidiaries (together "the Group") are principally engaged in the manufacturing and sales of plywood and biomass wood pellets in Heze city, Shandong Province, the People's Republic of China (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.

The Company completed its listing and initial public offering on 19 December 2016 and its shares have been listed on The Stock Exchange of Hong Kong Limited since 19 December 2016.

This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated.

This condensed consolidated interim financial information has been reviewed, not audited.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with International Accounting Standard 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to IFRSs effective for the financial year ending 31 December 2017.

(a) New and amended standards adopted by the Group

IFRS 7 (Amendments) "Statement of cash flows" is effective for annual periods beginning on or after 1 January 2017. This amendment clarifies an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments as mentioned above are not expected to have a material effect on the Group's operating results, financial position or comprehensive income.

3 ACCOUNTING POLICIES – *continued*

(b) Standards, amendments and interpretations to existing standards effective in 2017 but not relevant to the Group

		Effective for annual periods beginning on or after
IAS 12 (Amendment)	Income taxes	1 January 2017
IFRS 12 (Amendment)	Disclosure of interests in other entities	1 January 2017

(c) The following new standards, new interpretations and amendments to standards and interpretations 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:

		Effective for annual periods beginning on or after
IFRS 1 (Amendment)	First-time adoption of IFRS	1 January 2018
IFRS 2 (Amendments)	Share-based payment	1 January 2018
IFRS 4 (Amendment)	Insurance Contracts	1 January 2018
IFRS 9 (i)	Financial instruments	1 January 2018
IFRS 15 (ii)	Revenue from contracts with customers	1 January 2018
IFRIC 22 (Amendment)	Consolidated financial statements	1 January 2018
IAS 28 (Amendment)	Investment in associates and joint ventures	1 January 2018
IAS 40 (Amendments)	Investment property	1 January 2018
IFRS 16 (iii)	Leases	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

3 ACCOUNTING POLICIES – *continued*

(c) The following new standards, new interpretations and amendments to standards and interpretations 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: – *continued*

(i) IFRS 9 Financial instruments

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group will adopt the new standard when it's effective on 1 January 2018.

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets as the Group does not have:

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

There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

3 ACCOUNTING POLICIES – *continued*

(c) The following new standards, new interpretations and amendments to standards and interpretations 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: – *continued*

(i) IFRS 9 Financial instruments – continued

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. The Group does not have any hedge instruments. Therefore, the Group does not expect any impact on the new hedge accounting rules.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive value, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The Group is still assessing the actual impact affected by the new model, it may result in an earlier recognition of credit losses for trade receivables. But according to the preliminary result, the financial impact is expected to be immaterial.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

3 ACCOUNTING POLICIES – *continued*

(c) The following new standards, new interpretations and amendments to standards and interpretations 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: – ***continued***

(ii) IFRS 15 Revenue from Contracts with Customers

The International Accounting Standards Board has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. Group will adopt the new standard when it's effective on 1 January 2018.

When applying IFRS 15, revenue shall be recognised by applying following steps:

- identify the contract with customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contracts;
- recognize revenue when (or as) the entity satisfies a performance obligation.

Management has identified the following areas that are likely to be affected:

- bundle sales – the application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue. The Group is still assessing the financial impact.
- rights of return – IFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation. The historical goods return rate is very low and the financial impact of applying new IFRS 15 is not material.

3 ACCOUNTING POLICIES – *continued*

(c) The following new standards, new interpretations and amendments to standards and interpretations 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: – ***continued***

(iii) IFRS 16 Leases

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

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As of 30 June 2017, the Group has non-cancellable operating lease commitments of RMB1,012,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

Management is still assessing the financial impact. The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations, According to the preliminary assessment, other than the assessment results of IFRS 9, 15 and 16 stated above, none of them is expected to have a significant effect on the consolidation financial statements of the Group.

4 ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

There have been no changes in the risk management policies since 31 December 2016.

5.2 Liquidity risk

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 30 June 2017					
Borrowings	55,000	—	5,208	6,943	67,151
Interest payables for borrowings	2,622	781	2,135	1,128	6,666
Trade and other payables	14,394	—	—	—	14,394
	72,016	781	7,343	8,071	88,211
At 31 December 2016					
Borrowings	85,023	—	—	—	85,023
Interest payables for borrowings	1,323	—	—	—	1,323
Trade and other payables	17,479	—	—	—	17,479
	103,825	—	—	—	103,825

5 FINANCIAL RISK MANAGEMENT – *continued*

5.3 Fair value estimation

The carrying amount of the Group's financial assets (including trade and other receivables and cash and cash equivalents) and liabilities (including trade and other payables and borrowings) are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

6 REVENUE AND SEGMENT INFORMATION

The executive directors are the Group's chief operating decision-maker. The executive directors review the Group's internal reporting in order to assess performance and allocate resources. The executive directors have determined the operating segments based on these reports. The executive directors consider the business from products and services perspective, and determine that the Group has the following operating segments:

(i) Manufacturing and sales of plywood;

(ii) Manufacturing and sales of biomass wood pellets.

No geographical segment information is presented as all the revenue and operating profits of the Group are derived within the PRC and all the operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

The executive directors assess the performance of the business segments based on profit before income tax without allocation of finance costs, which is consistent with that in the consolidated financial statements.

No revenue was derived from a single external customer that exceeded 10% of the total revenue of the Group for the six months ended 30 June 2017 and 2016.

Segment assets consist of land use rights, property, plant and equipment, deferred income tax assets, inventories, trade and other receivables and cash and cash equivalents.

Segment liabilities consist of borrowings, deferred income, trade and other payables and current income tax liabilities.

6 REVENUE AND SEGMENT INFORMATION – *continued*

For six months ended 30 June 2017

The segment information for six months ended 30 June 2017 is as follows:

	Plywood RMB'000	Biomass wood pellets RMB'000	Inter-segment revenue RMB'000	Unallocated RMB'000	Group RMB'000
Segment result					
Revenue	209,060	53,090	(5,536)	—	256,614
Segment results	40,254	8,072	(52)	(4,967)	43,307
Finance expenses - net					(2,536)
Profit before income tax					40,771
Income tax expense (Note 8)					(10,720)
Profit for the period					30,051
Other segment items					
Provision for receivables impairment (Note 11)	1,487	1,920	—	—	3,407
Depreciation (Note 10)	1,726	898	—	—	2,624
Amortisation of land use rights (Note 10)	145	109	—	—	254

The segment assets and liabilities at 30 June 2017 are as follows:

	Plywood RMB'000	Biomass wood pellets RMB'000	Unallocated RMB'000	Group RMB'000
Segment and total assets	330,768	111,036	—	441,804
Segment and total liabilities	70,747	18,565	15,150	104,462

6 REVENUE AND SEGMENT INFORMATION – *continued*

For six months ended 30 June 2016

The segment information for six months ended 30 June 2016 is as follows:

	Plywood RMB'000	Biomass wood pellets RMB'000	Inter-segment revenue RMB'000	Unallocated RMB'000	Group RMB'000
Segment result					
Revenue	159,216	52,519	(3,276)	—	208,459
Segment results	29,232	12,687	(102)	(2,579)	39,238
Finance expenses - net					(2,189)
Profit before income tax					37,049
Income tax expense (Note 8)					(10,293)
Profit for the period					26,756
Other segment items					
Depreciation (Note 10)	1,702	901	—	1	2,604
Amortisation of land use rights (Note 10)	145	108	—	—	253

The segment assets and liabilities at 31 December 2016 are as follows:

	Plywood RMB'000	Biomass wood pellets RMB'000	Unallocated RMB'000	Group RMB'000
Segment and total assets	273,877	101,329	51,397	426,603
Segment and total liabilities	87,768	34,634	12,414	134,816

7 OPERATING INCOME

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Changes in inventories of finished goods and work-in-progress	(18,118)	(130)
Raw materials and consumables used	200,832	148,369
Employee benefit expenses	13,569	11,028
Depreciation and amortisation (Notes 10)	2,878	2,857
Provision for receivables impairment (Note 11)	3,407	—
Refund of value added tax ("VAT") (Note)	(1,664)	(3,519)

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 periods ended 30 June 2017 and 2016.

8 INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Current income tax	11,068	10,471
Deferred income tax (Note 16)	(348)	(178)
Total income tax	10,720	10,293

(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% (30 June 2016: 16.5%) for the period.

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% (30 June 2016: 25%) for the period.

(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 period, 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 30 June 2017 in the foreseeable future.

9 EARNINGS PER SHARE

(a) Basic

Basic earnings per share for six months ended 30 June 2017 and 2016 are calculated by dividing the profit attributable to the shareholders by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Profit attributable to the shareholders	**30,051**	26,756
Weighted average number of ordinary shares in issue (thousands)	**746,254**	540,000
Basic earnings per share (RMB cents per share)	**4.03**	4.95

In determining the weighted average number of ordinary shares in issue during the six months ended 30 June 2017 and 2016, a capitalisation of 539,980,000 shares by debiting the share premium account on 19 December 2016 was treated as if these shares had been in issue since 1 January 2016.

(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 six months ended 30 June 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 PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

	Property, plant and equipment RMB'000	Land use rights RMB'000
Six months ended 30 June 2017		
Net book value or valuation		
Opening amount as of 1 January 2017	**99,813**	**23,300**
Additions	**49,942**	**199**
Depreciation and amortisation	**(2,624)**	**(254)**
Closing amount as of 30 June 2017	**147,131**	**23,245**
Six months ended 30 June 2016		
Net book value or valuation		
Opening amount as of 1 January 2016	104,877	23,807
Depreciation and amortisation	(2,604)	(253)
Closing amount as of 30 June 2016	102,273	23,554

The land use rights are held under medium-term leases with lease term of 50 years and the land is situated in Heze city, Shandong Province, the PRC.

The Group's bank borrowings were secured by plants of the Group with net book value of RMB 57,276,000 (31 December 2016: RMB 58,321,000), land use rights of the Group with net book value of RMB 22,957,000 (31 December 2016: RMB 23,300,000), as of 30 June 2017 (Note 13). The borrowings were also supported by guarantees from related parties (Note 17).

11 TRADE AND OTHER RECEIVABLES

	30 June 2017 RMB'000	31 December 2016 RMB'000
Trade receivables	163,606	128,621
Less: Allowance for impairment of receivables	(6,099)	(2,692)
Trade receivables – net	157,507	125,929
Prepayments for raw materials	3,713	1,141
Other receivables	912	1,078
	162,132	128,148

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 of 30 June 2017 and 31 December 2016 the aging analysis of the trade receivables based on invoice date was as follows:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Up to 3 months	104,357	92,713
4 to 6 months	36,802	30,372
7 to 12 months	19,143	5,428
Over 1 year	3,304	108
	163,606	128,621
Less: provision for impairment	(6,099)	(2,692)
	157,507	125,929

12 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares '000	Amount: Share capital RMB'000	Amount: Share premium account RMB'000	Amount: Total RMB'000
Opening balance at 1 January 2017	720,000	6,393	95,750	102,143
Issue of ordinary shares (Note)	27,000	242	15,262	15,504
At 30 June 2017	747,000	6,635	111,012	117,647
Opening balance at 1 January 2016 and 30 June 2016	20	—	—	—

Note: On 6 January 2017, an aggregate of 27,000,000 shares of the Company were issued at a price of HK$ 0.70 pursuant to the exercise of an over-allotment option in connection with the initial public offering of the Company in December 2016. The gross proceeds raised was HK$ 18,900,000 (approximately RMB 16,907,000). The transaction costs of RMB 1,403,000 were debited to the share premium account.

13 BORROWINGS

	30 June 2017 RMB'000	31 December 2016 RMB'000
Non-current		
Bonds (i)	11,764	—
Current		
Short-term bank borrowings, secured	55,000	78,000
Short-term bank borrowings, unsecured	—	6,000
Add: Current portion financial lease liabilities	—	1,023
	55,000	85,023
Total borrowings	66,764	85,023

13 BORROWINGS – *continued*

(i) The bonds of the Group comprised the followings:

During the six months ended 30 June 2017, the Company issued bonds with coupon rates ranging from 6.0% to 6.5% in Hong Kong to individual third parties. The maturity periods of these bonds ranges from 36 months to 90 months and interests will be payable every year.

Movements in borrowings is analysed as follows:

	RMB'000
Six months ended 30 June 2017	
Opening amount as of 1 January 2017	85,023
Proceeds from bank borrowings	62,000
Proceeds from bonds issuance	11,764
Repayments of bank borrowings	(91,000)
Repayments of financial lease	(1,023)
Closing amount as of 30 June 2017	66,764
Six months ended 30 June 2016	
Opening amount as of 1 January 2016	50,812
Proceeds from bank borrowings	61,000
Repayments of bank borrowings	(38,000)
Repayments of financial lease	(1,479)
Closing amount as of 30 June 2016	72,333

The Group's bank borrowings were secured by plants of the Group with net book value of RMB 57,276,000 (31 December 2016: RMB 58,321,000), land use rights of the Group with net book value of RMB 22,957,000 (31 December 2016: RMB 23,300,000), as of 30 June 2017. The borrowings were also supported by guarantees from related parties (Note 17).

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

For six months ended 30 June 2017, the weighted average effective interest rate on borrowings from banks was 6.8% (six months ended 30 June 2016: 7.1%).

14 TRADE AND OTHER PAYABLES

	30 June 2017 RMB'000	31 December 2016 RMB'000
Trade payables	2,872	3,610
Employee benefit payables	6,706	8,147
Advances from customers	1,233	1,482
Other taxes payable	1,213	2,797
Payable for construction projects and purchase of property, plant and equipment	202	151
Payable for professional fees in respect of initial public offering	31	11,161
Others	2,137	2,557
	14,394	29,905

As of 30 June 2017, the aging analysis of the trade payables based on invoice date were as follows:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Within 3 months	2,839	3,610
4 to 6 months	33	—
	2,872	3,610

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

15 DEFERRED INCOME

	30 June 2017 RMB'000	31 December 2016 RMB'000
Government grants relating to property, plant and equipment	404	417

The government grants were received from the local government as a subsidy to the Group's purchase of property, plant and equipment. They are amortised to the profit or loss on a straight-line basis over the expected useful lives of the related assets.

The movements of the above government grants during the period were as follows:

	Six month ended 30 June	
	2017 RMB'000	2016 RMB'000
At beginning of the period	417	440
Amortised as income	(13)	(11)
At end of the period	404	429

16 DEFERRED INCOME TAX

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Opening balance at 1 January	1,071	1,859
Credited/(charged) to profit or loss	348	(178)
Closing balance at 30 June	1,419	1,681

17 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions.

Name and relationship with related parties are set out below:

Related party	Relationship
Mr. Ke Mingcai	Shareholder, Chairman and Executive Director of the Company
Mr. Wu Zhibin	Key management of the Group
Mr. Cai Jinxu	Shareholder of the Company

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the period, and balances arising from related party transactions as of the respective balance sheet dates:

Transactions with related parties

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
(i) Amounts received from a related party		
– Mr. Ke Mingcai	**—**	338

17 RELATED PARTY TRANSACTIONS– *continued*

(ii) Guarantees provided by related parties to the Group's short-term borrowings form banks

As of 30 June 2017, the Group's short term borrowings of RMB 40,000,000 were guaranteed by Mr. Cai Jinxu and KE Mingcai.

As of 31 December 2016, the Group's short term borrowings of RMB 40,000,000 were guaranteed by Mr. Cai Jinxu and Mr. Wu Zhibin.

(iii) Key management compensation

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Key management compensation		
– Salaries and bonus	**589**	500
– Pension, housing fund, medical insurance and other benefits	**52**	23
	641	523

18. DIVIDEND

For six months ended 30 June 2017 and 2016, the Board didn't declare any dividend.