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

2019 ANNUAL REPORT

CONTENT PAGE

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

DEFINITIONS

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

"Board"	the board of Directors
"China", "Mainland China" or "PRC"	the People's Republic of China and, except where the context requires and only for the purpose of this annual report, references to China do not include Taiwan, Hong Kong or the Macao Special Administrative Region of the People's Republic of China
"Company"	Da Sen Holdings Group Limited
"Da Sen Heze Advanced Materials Technology"	Da Sen Heze Advanced Materials Technology Company Limited (菏澤大森新型材料科技有限公司), a company established in the PRC on 1 November 2017, and is our indirect wholly-owned subsidiary
"Dasen (Heze)"	Dasen (Heze) Biomass Energy Limited (大森（菏澤）生物質能源有限公司), a company established in the PRC on 1 November 2012, and is the Company's wholly-owned subsidiary
"Dasen (HK)"	Dasen (Hong Kong) Holdings Company Limited (大森（香港）控股有限公司), a company incorporated in Hong Kong on 5 July 2012, and is the Company's wholly-owned subsidiary
"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
"Heroic Group"	Heroic Group Limited (雄英集團有限公司), a company incorporated in the BVI on 11 November 2013 and is the Company's wholly-owned subsidiary
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Main Board"	the stock market operated by the Stock Exchange, which excludes the GEM of the Stock Exchange and the options market

"Mei Sem (HK)"	Mei Sem (Hong Kong) Holding Co., Limited (美森（香港）控股有限公司), a company incorporated in Hong Kong on 31 December 2010, and is our wholly-owned subsidiary
"Meisen (Shandong)"	Meisen (Shandong) Wood Limited (美森（山東）木業有限公司), a company established in the PRC on 19 April 2004, and is the Company's wholly-owned subsidiary
"Prospectus"	prospectus of the Company dated 7 December 2016
"RMB"	Renminbi Yuan, the lawful currency of Mainland China
"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$0.01 each
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	United States dollars, the lawful currency of United States of America

CORPORATE INFORMATION

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. WONG Ben	*(Executive Director)* (Appointed on 12 July 2019)
Mr. CHAI Kaw Sing	*(Executive Director)* (Appointed on 12 July 2019)
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. LEUNG Wing Lun *(HKICPA)*

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. LEUNG Wing Lun *(HKICPA)*

EXTERNAL AUDITOR

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1604, 16th Floor
Emperor Group Centre
No. 288 Hennessy Road
Wan Chai, Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN MAINLAND CHINA

Economic Development Zone
Sunsi Town, Chengwu
Shandong, Mainland China

PRINCIPAL SHARE REGISTRAR

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

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

STOCK CODE

1580

COMPANY'S WEBSITE

http://www.msdscn.com

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Group, I am pleased to present the annual report of the Group for the year ended 31 December 2019.

We have experienced a hard time over the past year. In addition to the continuous environmental measures taken by the China Central People's Government giving pressure on the production cost on the Group's plywood products and biomass wood pellets, we are also facing a drop in demand of our biomass wood pellets as a result of the close down of combustion boilers by some production facilities in certain cities in China as recommended by the local governmental department. The deterioration of our biomass wood pellets business resulted in the impairment on the carrying amount of the corresponding production facilities.

The China-United States trade war has significant impact to some of our customers, in particular customers doing export business, and we have been facing a drop in demand in our plywood products. Accordingly, we have decided to terminate our expansion plan on building up production facilities for poplar veneers, which is the major raw materials consumed for the production of our plywood products. Such termination resulted in a forfeiture of approximately RMB3.3 million paid to the local government for the land auction in relation to new production capacities. We are in the process of requesting local government to refund the construction cost of approximately RMB21.6 million paid for the building erected on the land forfeited.

We are re-assessing the prospect of the biomass wood pellets business and may consider closing down such business should we identify any better business opportunities which can bring higher value to our shareholders.

The recent outbreak of the novel coronavirus disease led to a series of precautionary and control measures across the PRC, causing a temporary but not material impact on our production activities. Our production activities has resumed to a reasonable level. We encountered postponement and cancellation of some purchase orders from our customers which caused a temporary impact to our financial performance. We are working hard to catch up on business and we are also taking all necessary measures to protect our employees from the threat of the novel coronavirus disease. We would also like to wish our shareholders staying healthy in such critical moment.

KE Mingcai
Chairman

31 March 2020

EXECUTIVE DIRECTORS

Mr. KE Mingcai (柯明財), aged 46, is the Chairman and executive Director. Mr. Ke joined the Group in December 2010 and is responsible for the overall planning and strategic development of the Group's business. Prior to joining the Group, Mr. Ke worked as a general manager in Fujian Jinjiang Qi Ren CPU Co. Ltd (福建省晉江市奇仁聚氨酯製品有限公司), a company engaging in the manufacturing of polyurethane soles, shoes and garment, from 30 August 2002 to 31 December 2011. He has been the president of Fujian Li Rong Trading Development Co. Ltd (福建省力榮商貿發展有限公司), a company engaging in the sale of garment and shoes, and the material of those, since 13 July 2005. Mr. Ke also has more than eight years of experience in the wood industry and more than 11 years in the trading industry.

Furthermore, Mr. Ke is currently a member of the 19th People's Congress of Heze City and the chairman of the Federation of Overseas Chinese Entrepreneurs, Heze City (菏澤市僑商聯合會). In July 2015, Mr. Ke obtained a diploma in finance and securities at the Dongbei University of Finance and Economics (東北財經大學) in Mainland China.

Mr. Ke is also a director of Heroic Group, Mei Sem (HK), Dasen (HK), Meisen (Shandong), Dasen (Heze) and Da Sen Heze Advanced Materials Technology.

Mr. WANG Songmao (王松茂), aged 46, is the chief executive officer and executive Director. Mr. Wang joined the Group in December 2010 and is responsible for the general operations and formulating the policies for the Group. Mr. Wang has manufacturing experiences and management skills from his experience in the garment industry for over 11 years. Since 30 June 2005, he has been the president of Jiangsu Kunshan Long De Sheng Costume Co. Ltd (江蘇省昆山市隆德盛服飾有限公司), a company engaging in the manufacturing of plastic, plastic signage, paper signage, fabric signage, metal signage, wood product and the sale of wood products. He has also been the president of Bao Wei Automotive Technology (Jiangsu) Co. Ltd (寶瑋汽車科技 (江蘇) 有限公司), a company engaging in the development and sale of automobile and automobile components, since 3 December 2013.

Mr. Wang is currently a member of the 15th session of the Chinese People Political Consultative Conference of Chengwu County and the vice chairman of the Federation of Overseas Chinese Entrepreneurs, Heze City (菏澤市僑商聯合會).

Mr. Wang is also a director of Heroic Group.

Mr. ZHANG Ayang (張啊阳), aged 44, is the executive Director responsible for sales and marketing strategy and overseeing the sales of the Group. Mr. Zhang joined the Group in December 2010 as the head of sales department. Mr. Zhang was promoted as the general manager of Dasen (Heze) in November 2014. Since November 2008, Mr. Zhang has been working at Jinjiang Qing Yang Xin Yi Material Trading Company (晉江市青陽信億建材商行), engaging in the wholesaling and retailing of wooden board, light steel keel and fireproof material.

Mr. Zhang is also a director of Meisen (Shandong), Dasen (Heze) and Heroic Group and a supervisor of Da Sen Heze Advanced Materials Technology.

Mr. WU Shican (吳仕燦), aged 46, is the executive Director responsible for the general operations and administrative management of the Group. Mr. Wu joined the Group in December 2010. From 1996 to 2000, Mr. Wu acted as legal representative of Xiamen Qi Li Furniture Development Company Limited (廈門市奇麗家具發展有限公司), which was engaged in the manufacturing and sales of furniture. Mr. Wu served as the chief executive officer of Guangzhou Baiyun Tai Chuan Garment Factory (廣州白雲區太川製衣廠), a company engaging in garment manufacturing from August 2010 to December 2012, and thus has acquired experience in the manufacturing industry.

Mr. Wu is also a director of Dasen (HK), Mei Sem (HK) and Heroic Group.

Mr. CHAI Kaw Sing (蔡高昇), aged 44, is the executive Director. Mr. Chai has extensive experience in general management, financing arrangement and brokering services for stocks and foreign exchange products. Mr. Chai founded Blackwell Global Group (including Blackwell Global Investments Limited and its subsidiaries), a global financial and brokerage service provider, in 2010 and has been its chairman since then. Mr. Chai has been the majority shareholder and director of Blackwell Global Holdings Limited, a company listed on the Main Board of New Zealand's Exchange (stock code: BGI: NZ) since June 2017.

Mr. Chai obtained his degree in economics from National Cheng Chi University in 2000.

Mr. WONG Ben (黃子斌), aged 41, is the executive Director. Mr. Wong has extensive experience in project investment and management. Mr. Wong has been working as a manager in a privately owned company in Hong Kong responsible for daily operation and exploring investment opportunities in different projects since January 2008. Prior to that, Mr. Wong worked in Stottler Henke as an AI software engineer from April 2005 to August 2007 where Mr. Wong was mainly responsible for software development, including writing proposals to clients, designing and implementing software.

Mr. Wong obtained his bachelor of Arts from Cornell University in 2001 and his master of science from Stanford University in 2004. Mr. Wong also obtained the professional certificate in business management from The Open University of Hong Kong in November 2011.

Mr. Wong is the son of Mr. Wong Tseng Hon, a substantial shareholder of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LIN Triomphe Zheng, aged 52, is an independent non-executive Director. Mr. Lin graduated from Xiamen University (廈門大學) in Mainland China in July 1987 with a bachelor of arts degree. Mr. Lin further obtained his bachelor of commerce from Macquarie University, Australia in September 1997, majoring in accounting and finance. In January 2000, Mr. Lin was conferred by the CPA Australia as a certified practising accountant. In December 2000, Mr. Lin was first appointed by the Attorney General of New South Wales as a Justice of the Peace (NSW).

Mr. Lin has over 19 years of commercial and professional working experience in both Australia and China. Mr. Lin has extensive experience in corporate finance and financial advisory for wide range of industries, as well as in audit and initial public offering services. Mr. Lin was the international business director of BDO China Zhonglian Mindu Shu Lun Pan CPAs LLP, Fujian Office (立信會計師事務所（特殊普通合夥）福建分所) (previously known as Lixin Zhonglian Mindu CPAs (立信中聯閩都會計師事務所)), an accounting firm in China, from July 2007 to January 2014. Since February 2014, Mr. Lin has been the founding member at Moore Stephens Dahua CPAs LLP, Fujian Office, an accounting firm in China.

Mr. SHAO Wanlei (邵萬雷), aged 52, is an independent non-executive Director. Mr. Shao obtained his LL.M. (法學碩士) degree from Nanjing University (南京大學) in Mainland China in June 1999 and his LL.M. degree from Georg-August-University of Göttingen, Germany in October 1997. Mr. Shao was admitted as a lawyer in China in 1994. Mr. Shao founded Shao Wanlei Law Office, a law firm in China, in October 2005. In May 2008, Mr. Shao established Luther Law Offices in Mainland China, and since then has served as a managing partner.

Mr. WANG Yuzhao (王玉昭), aged 49, is an independent non-executive Director. Mr. Wang obtained his Ph.D. in management studies from Northeast Forestry University (東北林業大學) in Mainland China in July 2008. From February 2011 to June 2014, Mr. Wang engaged in postdoctoral research in applied economics in the Research Institute for Fiscal Science, Ministry of Finance, China (財政部財政科學研究所) while serving as a manager assistant in the safety and quality department of China Railway 16th Bureau (中鐵十六局). Mr. Wang has been a distinguished professor and mentor for graduate students at the Northeast Forestry University (東北林業大學) in Mainland China since June 2012 and Zhejiang Sci-Tech University (浙江理工大學) in Mainland China since January 2014.

Mr. Wang is currently working as the vice general manager of the Management System Certification Center of Beijing Huadian Wanfang (北京華電萬方管理體系認證中心).

SENIOR MANAGEMENT

Mr. LEUNG Wing Lun (梁穎麟), aged 38, has been the company secretary of the Group since April 2019 and is responsible for the secretarial matters of the Group. Mr. Leung has over 15 years of experience in providing professional corporate services and is a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, Mr. Leung worked in Hop Fung Group Holdings Limited (stock code: 2320) from July 2004 to August 2005. He served in the Inland Revenue Department as contract assistant taxation officer in Hong Kong from September 2005 to March 2006. From March 2006 to July 2011, Mr. Leung worked as tax consultant at Thomas Lee & Partners Limited. In November 2010, Mr. Leung founded Superior Alliance Group Company Limited which provides professional corporate services. He has been acting as the director of Superior Alliance Group Company Limited since its establishment. Mr. Leung obtained a bachelor's degree in business administration majoring in accounting from the City University of Hong Kong in 2004.

Mr. Leung has also been appointed as a company secretary of Hang Yick Holdings Company Limited (stock code: 1894) since May 2018 and Maike Tube Industry Holdings Limited (stock code: 1553) since April 2019.

Mr. ZHANG Donghua (張東華), aged 54, is the deputy general manager responsible for overseeing the Group's production of plywood products. Mr. Zhang joined the Group in February 2014. Mr. Zhang obtained his bachelor in wood processing from the Forestry College of Jilin (吉林林學院) in Mainland China in July 1987 and was also conferred a certificate of graduation in April 1988 for attending the TQC Backbone Staff Training Course (TQC骨幹培訓班) organised by the Jilin Quality Control Society (吉林省質量管理協會) and the School of Management, Jilin University (吉林工業大學管理學院). Mr. Zhang qualified as an engineer in January 1997 by the China Jilin Forest Industry Group (中國吉林森林工業（集團）總公司). Mr. Zhang was also awarded the Certificate of Third Class Contribution (立功證三等功) by the Forestry Administration of Linjiang City (臨江林業局) in November 1994. In March 1996, Mr. Zhang was awarded the Prize of Idea for Technology (科技建議獎) by the Jilin Society of Forestry (吉林省林學會). Mr. Zhang was also qualified as an internal system quality auditor (質量體系內部審核員) by the Beijing Jiuqian Standard Quality System Accreditation Centre (北京九千標準質量體系認證中心) in June 2001. From June 1987 to May 1999, Mr. Zhang worked at the Wood Manufacturing Factory (later known as Artificial Board Company（人造板公司）) of Forestry Administration of Linjiang of China Jilin Forest Industry Group (吉林森工集團臨江林業局制材廠) with his last position as an engineer.

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 report. 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.

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.

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in Note 13 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including a fair review of the Group's business, financial key performance indicators, a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the *Management Discussion and Analysis* section set out on pages 11 to 19 and the audited financial statements set out on pages 42 to 107 of this annual report. This discussion forms part of this report of the Directors.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2019 and the Group's financial position at that date are set out in the financial statements on pages 42 to 107 of this annual report.

The Directors do not recommend the payment of any dividends for the year ended 31 December 2019.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

As at 31 December 2019, out of the net proceeds of approximately RMB110.0 million received from the Company's initial public offering, the Group has utilised approximately RMB85.5 million as intended and set out in the Prospectus and for the construction of a new production facilities located in the Chengwu County, Heze City, Shandong Province, the PRC as disclosed in the announcement of the Company dated 10 November 2017 (the "Placing Announcement") in relation to the placing of new Shares by the Company, in the following manner:

	Notes	Allocation of net proceeds RMB'000	Utilisation of net proceeds as at 31 December 2019 RMB'000	Unutilised net proceeds RMB'000
Production lines for plywood products and biomass wood pellets	(i)	66,800	(53,336)	13,464
Expansion of sales and marketing network	(ii)	16,400	(5,325)	11,075
General working capital		11,000	(11,000)	–
New production facilities		15,800	(15,800)	–
		110,000	(85,461)	24,539

Note (i): There has been a delay in the construction on a new production line for biomass wood pellets. As stated in the Prospectus, the Group's original plan is to complete the construction and installation of the new production line for biomass wood pellets by the second quarter of the year 2017. However, the Group encountered delay in securing a new piece of land for construction of the new production plant, mainly due to the pending approval from the Ministry of Natural Resources of the PRC ("MoNR"). While it was pending for the approval from MoNR, the Group's biomass wood pellets business started deteriorating and management of the Group has started the assessment on any other plans for better use of the unutilised proceeds from the Company's initial public offering that can bring higher value to the Company and the Shareholders.

Note (ii): The Group encountered delay in locating suitable venues for setting up four new branch offices in China, as stated in the Prospectus. The Directors consider that more time is required to identify suitable venues for the Group's branch offices because the Group targets to set up these offices in locations which strategically would bring to the Group the benefit of promoting and marketing the Group's plywood products and biomass wood pellets in the most cost effective way, especially under the economic slowdown cycle in the PRC.

The Group's biomass wood pellets business started deteriorating since last year and management of the Group has started the assessment on any other plans for better use of the unutilised proceeds from the Company's initial public offering that can bring higher value to the Company and the Shareholders.

USE OF PROCEEDS FROM PLACING OF NEW SHARES

As at 31 December 2019, out of the net proceeds of approximately RMB75.6 million received from the Company's placing of 149,400,000 new Shares on 28 November 2017, the Group has utilised approximately RMB47.6 million as intended and set out in the Placing Announcement and there was an unutilised net proceeds of approximately RMB28.0 million as at 31 December 2019.

The Group experienced delay in the completion of the construction of the new production facilities during the year ended 31 December 2018 due to the approval for the use of the land pending from MoNR. During the year ended 31 December 2019, the Group has been facing a drop in demand on and also a negative gross profit margin for plywood products. Directors decided to suspend the plan on the construction of the New Production Facilities (as defined in the Placing Announcement). Management of the Group has started the assessment on any other plans for better use of the unutilised proceeds that can bring higher value to the Company and the Shareholders.

The Group has successfully placed 78,000,000 new Shares at HK$0.41 per Share on 17 June 2019. The net price of the newly placed Shares after deducting directly attributable costs were approximately HK$0.41. The aggregate nominal value of the newly placed Shares was HK$780,000 and the closing price of the Share on 10 June 2019, the date on which the terms of the Shares placing were fixed, was HK$0.49. To the best of the Directors' knowledge, each of the placees is an independent third party and none of them has become a substantial Shareholder right after the Shares placing. The Company received net proceeds of approximately HK$31.7 million, which would be used for repaying the Group's debts and the Group's general working capital purpose. All net proceeds have been utilised as intended during the year ended 31 December 2019.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 108 of this annual report. This summary does not form part of the Group's audited financial statements.

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 year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

DISTRIBUTABLE RESERVES

At 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB212,502,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers and the largest customer accounted for approximately 31.9% and 8.2% respectively of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the Directors or any of their associates or any Shareholders (which to the best knowledge of the Directors, own more than 5% of the number of issued Shares in the Company) had any beneficial interest in the Group's five largest customers.

DIRECTORS

The Directors during the year were:

Executive Directors:

Mr. KE Mingcai *(Chairman)*
Mr. WANG Songmao *(Chief executive officer)*
Mr. ZHANG Ayang
Mr. WU Shican
Mr. CHAI Kaw Sing (Appointed on 12 July 2019)
Mr. WONG Ben (Appointed on 12 July 2019)

Independent non-executive Directors:

Mr. LIN Triomphe Zheng
Mr. SHAO Wanlei
Mr. WANG Yuzhao

In accordance with articles 84(1) and 84(2) of the articles of association of the Company, Mr. KE Mingcai, Mr. LIN Triomphe Zheng, Mr. SHAO Wanlei, Mr. CHAI Kaw Sing and Mr. WONG Ben will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive Directors are appointed for a period of three years.

The Company has received annual confirmations of independence from Mr. LIN Triomphe Zheng, Mr. SHAO Wanlei and Mr. WANG Yuzhao, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 7 to 10 of this annual report.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DEED OF NON-COMPETITION

The Company entered into a deed of non-competition (the "Deed of Non-Competition") with the controlling Shareholders (collectively referred to as the "Covenantors") on 25 November 2016 so as to better safeguard the Group from any potential competition and to formalise the principles for the management of potential conflicts among them and to enhance our corporate governance in connection with the listing.

The independent non-executive Directors have reviewed compliance by the Covenantors and confirm that based on confirmations and information provided by each of the Covenantors, they were in compliance with the Deed of Non-Competition during the year ended 31 December 2019.

EMOLUMENT POLICY

The Group has 202 employees in Hong Kong and Mainland China as at 31 December 2019. The total salaries and related costs granted to employees amounted to approximately RMB19.4 million for the year ended 31 December 2019.

The Group's remuneration policy and share option scheme determine benefits of employees (including Directors) based on the duties and performance of each individual. 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 Mainland China.

The relationships with employee and the statistic are set out in the Environmental, Social and Governance Report.

DIRECTORS' REMUNERATION

Subsequent to 31 December 2019, the Board has reviewed the remuneration of all Directors in response to the impact from the novel coronavirus disease on the Group's financial performance. Accordingly, adjustments have been made on the remuneration level of each Director on a temporary basis, which have been approved by the Company's remuneration committee and the Board. The new annual remuneration level for each Director after adjustment is as follows:

Mr. KE Mingcai	HK$792,000
Mr. CHAI Kaw Sing	HK$270,000
Mr. WANG Songmao	HK$594,000
Mr. WONG Ben	HK$270,000
Mr. WU Shican	HK$594,000
Mr. ZHANG Ayang	HK$594,000
Mr. LIN Triomphe Zheng	RMB108,000
Mr. SHAO Wanlei	RMB108,000
Mr. WANG Yuzhao	RMB75,600

PERMITTED INDEMNITY PROVISION

During the year ended 31 December 2019, a permitted indemnity provision as defined in the Hong Kong Companies Ordinance was in force for the benefits of all Directors.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of the Company's subsidiaries was a party during the year ended 31 December 2019.

CONNECTED TRANSACTIONS

All of the Group's related party transactions for the year ended 31 December 2019 did not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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

At 31 December 2019, the interests and short positions of the Directors and the Company's 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 for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary Shares:

	Number of Shares held, capacity and nature of interest				
Name of director	**Directly beneficially owned**	**Through spouse or minor children**	**Interests in persons acting in concert** *(Note 1)*	**Total**	**Percentage of the Company's share capital**
Mr. KE Mingcai	232,380,800	–	69,668,000	302,048,800	31.00%
Mr. WANG Songmao	26,056,000	–	275,992,800	302,048,800	31.00%
Mr. ZHANG Ayang *(Note 2)*	–	302,048,800	–	302,048,800	31.00%
Mr. WU Shican	12,300,000	–	289,748,800	302,048,800	31.00%
Mr. CHAI Kaw Sing	34,185,000	16,300,000	–	50,485,000	5.18%

Notes:

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

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

Save as disclosed above, as at 31 December 2019, none of the Directors and the Company's 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 for Securities Transactions by Directors of Listed Issuers.

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. The Scheme became effective on 19 December 2016 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options permitted to be granted under the Scheme as at the date of this report is an amount equivalent, upon their exercise, to 72,000,000 Shares. The maximum number of Shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the Shares in issue as of the date of grant. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting.

Share options granted to a Director, chief executive or substantial Shareholder, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial Shareholder or an independent non-executive Director, or to any of their associates, in excess of 0.1% of the Shares in issue at any time or with an aggregate value (based on the price of the Shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to Shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the Scheme shall be valid and effective for a period of 10 years from the date of its adoption. There is no minimum period for which an option must be held before it can be exercised.

The subscription price of a Share in respect of any particular option granted under the Scheme shall be such price as our Board in its absolute discretion shall determine, save that such price will not be less than the highest of: (i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities; (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* in all respects and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully paid Shares in issue on the date of issue.

At no time during the year 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.

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

At 31 December 2019, 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:

Long positions in ordinary Shares:

	Number of Shares held, capacity and nature of interest			
Name	**Directly beneficially owned**	**Interests in persons acting in concert** *(Note 1)*	**Total**	**Percentage of the Company's share capital**
Mr. WONG Tseng Hon	175,940,000	–	175,940,000	18.06%
Mr. LIN Qingxiong	100,000	301,948,800	302,048,800	31.00%
Ms. WU Haiyan	31,212,000	270,836,800	302,048,800	31.00%

Note:

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

Save as disclosed above, as at 31 December 2019, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures" above, had registered an interest or short position in the Shares or underlying Shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Details of the Group's environmental policies and performance are disclosed in the Environmental, Social and Governance Report.

SIGNIFICANT EVENTS AFFECTING THE GROUP AFTER THE REPORTING PERIOD

Details of the significant events of the Group subsequent to the end of the reporting period are set out in note 29 to the consolidated financial statements of this annual report. Save as disclosed above, the Board is not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2019 and up to the date of this report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements and risks of non-compliance with such requirements. So far as the Directors is aware, the Group has complied in all material respects with the relevant laws and regulations that have significant impact on the business of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total number of issued Shares were held by the public as at the date of this report.

AUDITORS

PricewaterhouseCoopers retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held in Hong Kong on Friday, 22 May 2020. The notice of the annual general meeting will be issued and despatched in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 19 May 2020 to Friday, 22 May 2020, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the annual general meeting. In order to be entitled to attend and vote at the annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with Computershare Hong Kong Investor Services Limited, the Company's Hong Kong branch share registrar, at Shops 1712–1716, 17th Floor, Hopewell Centre, No. 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Monday, 18 May 2020.

ON BEHALF OF THE BOARD

KE Mingcai
Chairman

Hong Kong
31 March 2020

CORPORATE GOVERNANCE PRACTICES

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 year ended 31 December 2019.

BOARD OF DIRECTORS

Board composition

The Board currently comprises nine Directors, including six executive Directors and three independent non-executive Directors. As at 31 December 2019 and as at the date of this report, the Board comprises the followings Directors:

Executive Directors

Mr. KE Mingcai *(Chairman)*
Mr. WANG Songmao *(Chief executive officer)*
Mr. ZHANG Ayang
Mr. WU Shican
Mr. CHAI Kaw Sing (Appointed on 12 July 2019)
Mr. WONG Ben (Appointed on 12 July 2019)

Independent non-executive Directors

Mr. LIN Triomphe Zheng
Mr. SHAO Wanlei
Mr. WANG Yuzhao

Independence of the independent non-executive Directors

The Company has received annual written confirmations from all independent non-executive Directors with regards to their independence, and therefore the Company still consider, based on the guidelines set out in Rule 3.13 of the Listing Rules, that all independent non-executive Directors to be independent.

Continuous professional development

During the year ended 31 December 2019, the Directors participated in continuous professional development by either attending external seminars and conferences, or reading materials relating to corporate governance practices, directors' duty and the Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE

Mr. KE Mingcai currently serves as the chairman of the Board and Mr. WANG Songmao currently serves as the chief executive officer of the Company. The roles of the chairman and the chief executive officer are separate and exercised by different individuals. Such segregation of two important roles of the Company ensures a clear distinction between the management of the Board and the management of the business operation of the Company.

APPOINTMENT OF DIRECTORS

All Directors are subject to retirement by rotation at least once every three years. In addition, all independent non-executive Directors are appointed for a term of three years.

Roles and responsibilities

The Board is responsible for the leadership and control of the Group, and delegates day-to-day operations to the management team of the Group. The Board provides directions to the management team by laying down strategies and plans, and then oversees the implementation performed by the management team. The Board also timely monitors the Group's operational and financial performance through monthly reports prepared by the management team of the Group.

The Board also reviews the compensation policies, succession planning, internal control system and risk management system regularly through various committee established under the Board.

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 year ended 31 December 2019.

BOARD COMMITTEES

The Company currently has four committees established under the Board, listed as follows:

- Audit committee
- Remuneration committee
- Nomination committee
- Risk management committee

Audit committee

The audit committee is to serve as a focal point for communication between other Directors, the external auditors, and the management as their duties relate to financial and other reporting, internal controls and the audits; and to assist the Board in fulfilling its responsibilities by providing an independent review of financial reporting, by satisfying themselves as to the effectiveness of the Company's internal controls and as to the efficiency of the audits.

The audit committee is currently chaired by Mr. LIN Triomphe Zheng and the other members of the audit committee are Mr. SHAO Wanlei and Mr. WANG Yuzhao. All members of the audit committee are independent non-executive Directors.

The work performed by the audit committee during the year ended 31 December 2019 comprises the following:

- reviewing the annual results and the annual report of the Group for the year ended 31 December 2018;
- reviewing the interim results and the interim report of the Group for the six months ended 30 June 2019;
- assessing the effectiveness of the Group's internal audit function;
- making recommendations to the Board on reappointment of the Company's external auditor;
- approving the remuneration and terms of engagement of the Company's external auditor;
- reviewing and monitoring the independence of the Company's external auditor, objectivity and the effectiveness of the audit process;
- reviewing the Group's financial control system; and
- reviewing the Group's accounting policies and practices.

Remuneration committee

The remuneration committee is responsible for making recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy. In addition, the remuneration committee is also responsible for reviewing and approving the management's remuneration proposals with reference to the corporate goals and objectives of the Board.

The remuneration committee is currently chaired by Mr. WANG Yuzhao and the other members of the remuneration committee are Mr. LIN Triomphe Zheng and Mr. SHAO Wanlei. All members of the remuneration committee are independent non-executive Directors.

The work performed by the remuneration committee during the year ended 31 December 2019 comprises the following:

- reviewing the policy for the remuneration of executive Directors; and
- assessing performance of executive Directors and approving the terms of executive Directors' service contracts.

Nomination committee

The nomination committee is mainly responsible for the following:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships with due regard to the benefits of diversity in the Board with reference to the Board diversity policy;

- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future, together with the Board, as appropriate;
- assessing the independence of independent non-executive Directors in accordance with the provisions of the Listing Rules and other relevant laws, rules and regulations;
- reviewing the Board diversity policy, developing and reviewing measurable objectives for implementing the Board diversity policy and monitoring the progress on achieving these objectives; and
- where the Board proposes a resolution to elect an individual as an independent non-executive Director at the general meeting, setting out in the circular to Shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe he should be elected and the reasons why they consider him to be independent.

The nomination committee is currently chaired by Mr. SHAO Wanlei and other members of the nomination committee are Mr. KE Mingcai and Mr. WANG Yuzhao. Mr. SHAO Wanlei and Mr. WANG Yuzhao are independent non-executive Directors and Mr. KE Mingcai is an executive Director.

The work performed by the nomination committee during the year ended 31 December 2019 included reviewing the policy for the nomination of Directors.

Risk management committee

The risk management committee is mainly responsible for the following:

- considering the Company's risk management strategies;
- considering, reviewing and approving risk management policies and guidelines;
- deciding on risk levels, risk appetite and related resources allocation;
- approving major decisions affecting the Group's risk profile or exposure and giving such directions as it considers appropriate;
- considering the effectiveness of decision making process in crisis and emergency situations; and
- reviewing at least once a year the effectiveness and resources of the internal control systems of the Group.

The risk management committee is currently chaired by Mr. WU Shican and the other members of the risk management committee are Mr. LIN Triomphe Zheng and Mr. ZHANG Ayang. Mr. WU Shican and Mr. ZHANG Ayang are executive Directors and Mr. LIN Triomphe Zheng is an independent non-executive Director.

The work performed by the risk management committee during the year ended 31 December 2019 included reviewing the Group's risk management and internal control systems.

Board, Board committee meetings and general meetings

The attendance of each Director for the Board meetings, Board committee meetings and general meetings held during the year ended 31 December 2019 is set out in the following table:

	Meetings attended/meetings eligible to attend					
Directors	Board	Audit committee	Remuneration committee	Nomination committee	Risk management committee	General meeting
Executive Directors						
Mr. KE Mingcai	5/5	N/A	N/A	2/2	N/A	1/1
Mr. WANG Songmao	5/5	N/A	N/A	N/A	N/A	1/1
Mr. ZHANG Ayang	5/5	N/A	N/A	N/A	1/1	1/1
Mr. WU Shican	5/5	N/A	N/A	N/A	1/1	1/1
Mr. CHAI Kaw Sing	2/2	N/A	N/A	N/A	N/A	N/A
Mr. WONG Ben	2/2	N/A	N/A	N/A	N/A	N/A
Independent non-executive Directors						
Mr. LIN Triomphe Zheng	5/5	2/2	2/2	N/A	1/1	1/1
Mr. SHAO Wanlei	5/5	2/2	2/2	2/2	N/A	1/1
Mr. WANG Yuzhao	5/5	2/2	2/2	2/2	N/A	1/1

Remuneration paid to the senior management by band

Pursuant to code provision B.1.5 of the Corporate Governance Code, the remuneration paid to the senior management by band for the year ended 31 December 2019 is set out below:

Remuneration bands	Number of individual(s)
Below HK$1,000,000	5

Details of remuneration of the Directors and the five highest paid individuals are set out in notes 7 and 31(a) to the financial statement, respectively.

AUDITORS' REMUNERATION

PricewaterhouseCoopers has been appointed as the auditors of the Company in respect of the audit of the financial statements of the Company for the year ended 31 December 2019. No non-audit services have been provided by PricewaterhouseCoopers to the Group during the year ended 31 December 2019.

An analysis of the fees paid or payable to PricewaterhouseCoopers in relation to services rendered to the Company for the year ended 31 December 2019 is as follows:

	RMB'000
Audit services	1,150
Non-audit services	–
	1,150

SHAREHOLDERS' RIGHTS

Shareholders can at any time raise enquiries to the Board. The enquiries must be in writing with contact information of the Shareholder(s) and deposited at the principal place of business of the Company in Hong Kong at Unit 1604, 16th Floor, Emperor Group Centre, No. 288 Hennessy Road, Wan Chai, Hong Kong for the attention of the company secretary of the Company.

In addition, any one or more duly registered holder of the Shares holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

CONSTITUTIONAL DOCUMENTS

There is no significant changes in the constitutional documents of the Company during the year ended 31 December 2019.

FINANCIAL REPORTING

Directors' responsibilities

The Directors acknowledge that the Board is responsible for the preparation of the consolidated financial statements of the Group that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Auditors' responsibilities

The reporting responsibilities of the Company's auditors with regard to the consolidated financial statements of the Group are set out on page 40 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for evaluating and determining the nature and extent of the risks the Company is willing to take in achieving the Company's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems. The Board oversees management in the design, implementation and monitoring of the risk management and internal control systems. The Board acknowledges that such risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board confirms that it has conducted a review of the risk management and internal control systems of the Group during the year ended 31 December 2019 by the internal audit team. The Board concludes, based on the result of the review, that the risk management and internal control systems currently in place are adequate and effective.

The Board expects that a review of the risk management and internal control systems will be performed annually.

pwc 羅兵咸永道

To the Shareholders of Da Sen Holdings Group Limited
(Incorporated in Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Da Sen Holdings Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 42 to 107, which comprise:

– the consolidated balance sheet as at 31 December 2019;

– the consolidated statement of comprehensive income for the year then ended;

– the consolidated statement of changes in equity for the year then ended;

– the consolidated statement of cash flows for the year then ended; and

– the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition – sales of products
- Recoverability of trade receivables
- Impairment of property, plant and equipment

Key Audit Matter	
1. Revenue recognition — sales of products	**How our audit addressed the Key Audit Matter**
Refer to Note 2.21 (Summary of significant accounting policies) and Note 5 (Revenue and segment information) of the consolidated financial statements. For the year ended 31 December 2019, the Group recognised revenue of RMB318,542,000 from the sale of plywood and biomass wood pellets. Revenue is recognised when control of the underlying products has been transferred to the customers. We focused on this area due to the large volume of revenue transactions with customers.	We understood, evaluated and tested management's key controls over revenue recognition in respect of the Group's sales transactions, from approval of customer orders, all the way to settlement of trade receivables. We tested revenue transactions recorded on sample basis by examining relevant supporting documents including sales contracts and orders, goods delivery notes and sales invoices. In addition, we circularised confirmations on a sample basis on trade receivable balances as at the balance sheet date together with the confirmation of the sales transactions with selected customers during the year. Furthermore, we tested sales transactions that took place shortly before and after the balance sheet date to assess whether revenue was recognised in the correct reporting period based on the supporting documents obtained. Based on our work performed, we found the revenue transactions tested were supported by the evidence obtained.

Key Audit Matter

2. Recoverability of trade and other receivables	**How our audit addressed the Key Audit Matter**
Refer to Notes 2.10 and 2.13 (Summary of significant accounting policies), Note 3.1(b) (Credit risk), Note 4(d) (Critical accounting estimates and judgements) and Note 18 (Trade and other receivables) of the consolidated financial statements. As at 31 December 2019, the Group had trade receivables of RMB182,828,000, with a provision for impairment of RMB8,334,000, and other receivables of RMB21,881,000, with a provision for impairment of RMB10,795,000. Trade and other receivables are measured at amortised cost less allowance for impairment in the consolidated financial statements. In respect of trade receivables, the management applied the expected credit loss model to measure the impairment provision at the reporting date. The management estimated the loss allowance of trade receivables based on the lifetime expected credit losses. Trade receivables without objective evidence of impairment are grouped based on shared credit risk characteristics. The collective provision was determined based on the historical credit loss rates to the respective aging category of gross carrying amount of receivables. The expected credit loss rates are adjusted to reflect current and forward-looking information. For other receivables, the management identify balances with objective evidence of impairment, and individual provision was made based on a probability-weighted estimate of the cash flows that the entity expects to receive. We focused on this area due to the magnitude of the trade receivables balance, and the significance of management's judgements and estimates applied in assessing the amount of expected credit loss at the reporting date.	We evaluated and validated the controls which management adopted to monitor the recoverability of trade and other receivables, including controls over identification of objective evidence of impairment and estimation of the impairment provisions. In respect of trade receivables: — We checked the accuracy of aging of trade receivables prepared by management on sample basis; — We assessed the appropriateness of the credit loss provisioning methodology of the management; — We assessed the information used by management to determine the expected credit losses including i) historical cash collection performance from customers, ii) level of credit loss charges over time, iii) forward-looking information used to determine the expected credit losses by considering economic factors, and iv) sensitivity of the forward-looking information based on reasonable possible changes of the related key assumptions; and — We reviewed the accuracy of management's assessment by comparing historical provisions against actual write-offs. We assessed the management's identification and assessment of recoverability of individually impaired other receivables, focusing on significant or high risk balances. We assessed the collectability of the balances by checking the supporting evidence including contracts, confirmations, interview with the relevant parties, where applicable. Based on our work performed, we found management's assessments of the recoverability of trade and receivables are supported by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
3. Impairment of property, plant and equipment	
Refer to Note 2.7 (Summary of significant accounting policies), Note 4(b) (Critical accounting estimates and judgements) and Note 15 (Property, plant and equipment) of the consolidated financial statements. As at 31 December 2019, the carrying amount of the Group's property, plant and equipment amounted to RMB133,652,000, against which an impairment loss of RMB13,977,000 was made. The plywood segment and biomass wood pellets segment of the Group incurred losses during the year ended 31 December 2019 and the utilization of the production capacity of biomass wood pellets segment was very low. These were indicators of the risk that the carrying values of property, plant and equipment attributable to these two cash generating units ("CGUs") may be impaired. Management performed an assessment of the recoverable amounts of assets of the two CGUs and concluded that impairment losses of RMB13,977,000 was required. The recoverable amounts of the CGUs have been determined based on the higher of fair value less costs of disposal and value in use calculated through discounting the estimated future cash flows generated from the relevant assets or the CGUs to the present value. In estimating the aforesaid recoverable amounts, management is required to consider all relevant factors with reasonable and supportable assumptions to make significant accounting estimations. The key assumptions adopted include: revenue growth rates, gross margin, discount rate and disposal value. We focused on this area due to the magnitude of property, plant and equipment which had impairment indicators and significance of management judgements in assessing the recoverable amount.	We evaluated whether any indicators of impairment existed including physically inspecting the related property, plant and equipment. With regard to property, plant and equipment that the recoverable amounts were determined based on fair value less costs of disposal, we checked the management's estimated disposal price of the assets by comparing the estimations with recent transactions or quotation in the area that the Group operates. With regard to property, plant and equipment that the recoverable amounts were based on value in use, we assessed the valuation approaches and methodologies adopted in the cash flow forecasts prepared by management. We: – tested the underlying data used by the management in the impairment test by evaluating the appropriateness of management's key assumptions and judgements in the impairment test; – involved our valuation experts to help evaluated the appropriateness of the methodologies and discount rate management applied for the impairment test; and – tested the mathematical accuracy of the calculations in the value in use cash flow model. Based on our work performed, we found management's assessments of the impairment of property, plant and equipment are supported by the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with the Audit Committee all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Dou Wang, Angel.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	5	318,542	435,664
Cost of sales	6	(347,194)	(380,171)
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	3.1(b), 18	(11,307)	(1,590)
Other income	8	4,166	5,957
Other losses-net	9	(12,579)	(356)
Operating (loss)/profit		(76,175)	32,453
Finance income	10	8	9
Finance costs	10	(5,493)	(5,840)
Finance costs – net	10	(5,485)	(5,831)
(Loss)/Profit before income tax		(81,660)	26,622
Income tax (credit)/expense	11	6,079	(7,349)
(Loss)/Profit for the year		(75,581)	19,273
Other comprehensive income		–	–
Total comprehensive (loss)/income for the year and attributable to the shareholders of the Company		(75,581)	19,273
(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	12	(8.05)	2.15

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

	Notes	2019 RMB'000	2018 RMB'000
Assets			
Non-current assets			
Land use rights	14	–	24,549
Right-of-use assets	14	27,270	–
Property, plant and equipment	15	119,675	161,089
Prepayments	18	2,351	5,939
Deferred income tax assets	25	7,280	1,707
		156,576	193,284
Current assets			
Inventories	16	82,682	107,990
Trade and other receivables	18	212,426	193,743
Cash and cash equivalents	19	51,007	48,298
		346,115	350,031
Total assets		502,691	543,315
Equity			
Equity attributable to the shareholders of the Company			
Share capital	20	8,592	7,906
Share premium	20	212,502	185,321
Other reserves	21	52,942	52,942
Retained earnings		130,537	206,118
Total equity		404,573	452,287
Liabilities			
Non-current liabilities			
Borrowings	22	22,736	23,847
Deferred income	24	342	369
Deferred income tax liabilities	25	–	506
		23,078	24,722

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Liabilities (continued)			
Trade and other payables	23	**30,288**	12,653
Current income tax liabilities		**7,177**	8,274
Borrowings	22	**37,103**	45,379
Lease liabilities	14	**472**	–
		75,040	66,306
Total liabilities		**98,118**	91,028
Total equity and liabilities		**502,691**	543,315

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 42 to 107 were approved by the Board of Directors on 31 March 2020 and were signed on its behalf.

KE Mingcai
Director

WANG Songmao
Director

	Equity attributable to the shareholders of the Company				
	Share capital (Note 20) RMB'000	Share premium (Note 20) RMB'000	Other reserves (Note 21) RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2018	7,906	185,321	50,888	188,899	433,014
Comprehensive income					
Profit for the year	–	–	–	19,273	19,273
Total comprehensive income	–	–	–	19,273	19,273
Transactions with the shareholders					
Profit appropriation to statutory reserves	–	–	2,054	(2,054)	–
Total transactions with the shareholders	–	–	2,054	(2,054)	–
Balance at 31 December 2018	7,906	185,321	52,942	206,118	452,287
Comprehensive income					
Loss for the year	–	–	–	(75,581)	(75,581)
Total comprehensive income	–	–	–	(75,581)	(75,581)
Transactions with the shareholders					
Placing of new shares (Note 20)	686	27,181	–	–	27,867
Total transactions with the shareholders	686	27,181	–	–	27,867
Balance at 31 December 2019	8,592	212,502	52,942	130,537	404,573

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash used in operations	26	(5,296)	(20,098)
Interest received	10	8	9
Interest paid		(4,053)	(3,859)
Income tax paid		(1,097)	(14,380)
Net cash used in operating activities		(10,438)	(38,328)
Cash flows from investing activities			
Purchases of property, plant and equipment		(3,213)	(2,549)
Purchase of land use rights	14	(610)	–
Prepayment for land use rights	18	–	(2,789)
Proceeds from disposal of property, plant and equipment	26	285	–
Net cash used in investing activities		(3,538)	(5,338)
Cash flows from financing activities			
Net proceeds from issuance of ordinary shares		27,867	–
Proceeds from borrowings	26	44,809	65,439
Repayments of borrowings	26	(55,395)	(47,609)
Principal elements of lease payments		(542)	–
Net cash generated from financing activities		16,739	17,830
Net increase/(decrease) in cash and cash equivalents		2,763	(25,836)
Cash and cash equivalents at beginning of year	19	48,298	74,263
Effect of exchange rate changes on cash and cash equivalents		(54)	(129)
Cash and cash equivalents at end of year	19	51,007	48,298

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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 has its shares listed on The Stock Exchange of Hong Kong Limited since the initial public offering on 19 December 2016.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors (the "Board") on 31 March 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

(i) 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 ("HKCO").

(ii) Historical cost convention

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

(iii) New and amended standards adopted by the Group

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

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. This is disclosed in note 2.2. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

(iv) 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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.2 Changes in accounting policies

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

As indicated in note 2.1 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. The new accounting policies are disclosed in note 2.22.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.2 Changes in accounting policies – *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	(44)
Lease liability recognised as at 1 January 2019	929
Of which are:	
Current lease liabilities	497
Non-current lease liabilities	432
	929

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.2 Changes in accounting policies – *continued*

(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	432	929
Equipment	–	–
Total right-of-use assets	**432**	929

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.

2.3 Principles of consolidation and equity accounting

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.3 Principles of consolidation and equity accounting – *continued*

Subsidiaries – continued

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

2.6 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RMB, which is the functional currency of the entities in the Group and the Company's and the Group's presentation currency.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.6 Foreign currency translation – *continued*

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in the consolidated statements of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statements of comprehensive income within 'finance costs – net'. All other foreign exchange gains and losses are presented in the consolidated statements of comprehensive income within 'Other losses – net'.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.7 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Construction-in-progress ("CIP") represents buildings and machineries under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction and acquisition and capitalised borrowing costs. No depreciation is made on CIP until such time as the relevant assets are completed and ready for their intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statements of comprehensive income during the financial year in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

– Plant	30 years
– Machinery	10–15 years
– Vehicles	5 years
– Furniture, fittings and equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other losses – net' in the consolidated statements of comprehensive income.

2.8 Land use rights

All land in Mainland China is state-owned and no individual land ownership right exists. The Group's interests in land use rights represent prepaid operating lease payments, which are amortised over the useful terms of 50 years using the straight-line method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.9 Impairment of investments in subsidiaries and non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of an impairment at each reporting date.

2.10 Financial assets

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.10 Financial assets – *continued*

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the consolidated statement of comprehensive income.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the consolidated statement of comprehensive income and presented in "other gains/(losses)" together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.

(iv) Impairment

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

For trade receivables, the Group applies the modified retrospective approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1(b) for further details.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention consolidated to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.12 Inventories

Inventories include raw materials, work in progress and finished goods which are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for goods sold performed in the ordinary course of business. Trade receivables are generally due for settlement within 90 days and therefore are all classified as current.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 2.10 for further information about the Group's accounting for trade receivables and a description of the Group's impairment policies.

2.14 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade and other payables

These amounts represent liabilities for goods provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.18 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated statements of comprehensive income in the period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.19 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in the consolidated statements of comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.20 Employee benefits

Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity managed by local governments. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

2.21 Revenue recognition

Sales of products

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

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

The Group does not expect to have any contract containing financing components. As a consequence, the Group does not adjust any of the transition prices for the time value of money.

2.22 Leases

As explained in note 2.2 above, the Group has changed its accounting policy for leases where the group is the lessee. The new policy is described below and the impact of the change in note 2.2.

Until 31 December 2018, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (Note 27(b)). Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.22 Leases – *continued*

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments).

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2.23 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Note 8 provides further information on how the Group accounts for government grants.

2.24 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the statement of profit or loss as part of other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below. Any other interest income is included in other income.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's risk management is carried out by a central treasury department (the treasury of the Group) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) 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 Mainland China with most of the transactions denominated and settled in RMB. Therefore, the Group did not use any derivatives to hedge its exposure to foreign exchange risk for the year ended 31 December 2019.

In 2019, the Group received proceeds, denominated in HK$ from the issuance of bonds of the Company and Placing of new shares. The proceeds will be used for the expansion of the Group in Mainland China. The Group manages the currency risk arising from proceeds from issuance of bonds by remitting majority of the funds to Mainland China and exchanging into RMB as soon as possible.

The exposures to the foreign exchange risks are disclosed in Note 18, 19, 22 and 23.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(a) Market risk – continued

(i) Foreign exchange risk – *continued*

At 31 December 2019, if RMB had strengthened/weakened by 10% against the US$ and HK$ (pegged with US$) with all other variables held constant, the net profit for the year would have been RMB2,348,000 higher/lower (2018: RMB2,274,000 higher/lower), mainly as a result of foreign exchange gains/(losses) on translation of US$ and HK$ denominated cash and cash equivalents.

(ii) Cash flow and fair value interest rate risk

Except for cash and cash equivalents (Note 19), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

The Group's interest rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group does not hedge its cash flow and fair value interest rate risk.

As at 31 December 2019, if interest rate on borrowings had been higher/lower by 10% of current interest rate, with other variables held constant, the net profit for the years ended 31 December 2019 would have been decreased/increased by approximately RMB358,000 (2018: RMB349,000).

(b) Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at amortised cost, as well as credit exposures to the customers, including outstanding receivables.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(b) Credit risk – continued

(i) Risk management

Credit risk is managed on a group basis. Bank deposits and cash at bank are deposited in reputable financial institutions which are considered with low credit risk.

The Group has policies in place to ensure that receivables with credit terms are made to counterparties with an appropriate credit history and management performs ongoing credit evaluations of the counterparties. The credit period granted to the customers is usually no more than 90 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors. In view of the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding trade receivables arising from sales of products due from them is not significant.

(ii) Impairment of financial assets

The Group has trade receivables for sales of inventory that are subject to the expected credit loss model.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

Trade receivables

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 from initial recognition.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days exceed the normal collecting period.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2019 or 1 January 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has considered the business, financial or economic conditions and performance and behaviour of customers, and accordingly adjusts the historical loss rates based on expected changes in these factors.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(b) Credit risk – continued

(ii) Impairment of financial assets – *continued*

Trade receivables – *continued*

On that basis, the loss allowance as at 31 December 2019 was determined as follows for trade receivables:

31 December 2019	Current RMB'000	Past due for 1 to 6 months RMB'000	Past due for more than 6 months and less than 1 year RMB'000	Past due for more than 1 year RMB'000	Total RMB'000
Expected loss rate	1.30%	2.82%	8.46%	28.30%	4.56%
Gross carrying amount	77,569	53,160	44,951	7,148	182,828
Total loss allowance	1,006	1,500	3,805	2,023	8,334

31 December 2018	Current RMB'000	Past due for 1 to 6 months RMB'000	Past due for more than 6 months and less than 1 year RMB'000	Past due for more than 1 year RMB'000	Total RMB'000
Expected loss rate	1.22%	1.34%	10.58%	70.24%	4.00%
Gross carrying amount	116,517	58,280	15,098	5,600	195,495
Total loss allowance	1,426	780	1,683	3,933	7,822

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(b) Credit risk – continued

(ii) Impairment of financial assets – *continued*

Trade receivables – *continued*

The significant decrease in expected loss rate in 2019 was due to the decrease in corresponding historical credit losses experienced within the 36 months before balance sheet date.

The closing loss allowances for trade receivables as at 31 December 2019 reconcile to the opening loss allowances as follows:

	Trade receivables	
	2019	2018
	RMB'000	RMB'000
Opening loss allowance at 1 January	**7,822**	6,232
Provision for receivables impairment	**512**	1,945
Reversal of receivables impairment during the year	**–**	(355)
At 31 December	**8,334**	7,822

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period greater than 2 years past due (credit terms).

Impairment losses on trade receivables are presented within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(b) Credit risk – continued

(ii) Impairment of financial assets – *continued*

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

Net impairment losses on financial assets recognised in the consolidated statement of comprehensive income

During the years ended 31 December 2019 and 2018, the following losses were recognised in "net impairment losses on financial assets" in the consolidated statement of comprehensive income in relation to impaired financial assets.

	2019 **RMB'000**	2018 RMB'000
Provision for impairment losses		
– loss allowance for trade receivables	**512**	1,590

Cash flow forecasting is performed in the operating entities of the Group and aggregated by the Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(c) *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 3 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2019					
Borrowings	37,414	–	14,332	8,958	60,704
Interest payables for borrowings	2,606	1,621	3,502	524	8,253
Trade and other payables	7,442	–	–	–	7,442
	47,462	1,621	17,834	9,482	76,399
At 31 December 2018					
Borrowings	45,381	1,752	7,010	15,772	69,915
Interest payables for borrowings	2,488	1,586	3,987	1,538	9,599
Trade and other payables	4,764	–	–	–	4,764
	52,633	3,338	10,997	17,310	84,278

3 FINANCIAL RISK MANAGEMENT – *continued*

3.2 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, return capital 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 borrowings divided by total equity. Total borrowings include 'current and non-current borrowings' as shown in the consolidated balance sheet. Total equity is 'equity' as shown in the consolidated balance sheet.

The gearing ratios as at 31 December 2019 and 2018 were as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Total borrowings (Note 22)	**59,839**	69,226
Total equity	**404,573**	452,287
Gearing ratio	**15%**	15%

Gearing ratio is same as 2018 during the year resulted primarily from the decrease in total debt due to Decrease in bank borrowing and corporate bond during the year ended 31 December 2019 and net loss for the year ended 31 December 2019.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 Fair value estimation

The Group adopts the amendment to IFRS 13 for financial instruments that are measured in the consolidated balance sheet at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 31 December 2019, the Group had no financial instruments that are subsequently measured in the consolidated balance sheet at fair value.

The carrying amounts of the Group's financial assets, including trade and other receivables, cash and bank deposits and short term liabilities, including trade and other payables and borrowings are assumed to approximate their fair values due to their short-term maturities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated useful lives and residual values of property, plant and equipment

The Group's management determines the estimated useful lives and residual values and consequently the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitors action in response to sever industry cycles. Management will increase the depreciation charge when useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or nonstrategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives, and actual residual values. Periodic reviews could result in a change in depreciable lives and residual values and therefore changes in depreciation expenses in the future periods.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

(b) Estimated impairment of property, plant and equipment

The Group reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount of cash-generating unit has been determined based on the higher of value in use and fair value less costs to sell. Property, plant and equipment that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related assets values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs of disposal or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated income statement. If there is an indication that an impairment loss may have decreased, the recoverable amount should not be more than what the depreciated historical cost would have been if the impairment had not been recognised.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to industry cycles. Management reassesses the estimates at each reporting date.

(d) Provision for impairment of trade and other receivables

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, basing on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the tables in Note 3.1(b).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

(e) Current and deferred income taxes

The Group is subject to income taxes in a few jurisdictions. Judgement is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the periods in which such determinations are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers that it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed.

5 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; and

(ii) Manufacturing and sales of biomass wood pellets fuel.

No geographical segment information is presented as all the revenue and operating profits of the Group are derived within Mainland China and all the operating assets of the Group are located in Mainland China, 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 years ended 31 December 2019 and 2018.

Segment assets consist of land use rights, property, plant and equipment, deferred tax assets, inventories, trade and other receivables and cash and cash equivalents. Unallocated assets mainly comprise cash and bank balances and other receivables held by non-PRC incorporated companies.

Segment liabilities consist of borrowings, deferred income, deferred tax liabilities, trade and other payables and other current tax liabilities. Unallocated liabilities mainly comprise interest payable and bonds held by non-PRC incorporated companies.

5 REVENUE AND SEGMENT INFORMATION – *continued*

For the year ended 31 December 2019

The segment information for the year ended 31 December 2019 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	305,503	30,527	(17,488)	–	318,542
Segment results	(61,583)	(9,050)	4	(5,546)	(76,175)
Finance costs – net (Note 10)					(5,485)
Loss before income tax					(81,660)
Income tax expense (Note 11)					6,079
Loss for the year					(75,581)
Other segment items					
Amortisation of land use rights (Note 14)	389	221	–	–	610
Depreciation (Note 15)	4,162	1,905	–	–	6,067
Loss on disposal of property, plant and equipment (Note 9)	607	103	–	–	710
Impairment charges for property, plant and equipment (Note 15)	7,512	6,465	–	–	13,977
Additions to non-current assets	3,525	300	–	–	3,825

The segment assets and liabilities at 31 December 2019 are as follows:

	Plywood RMB'000	Biomass wood pellets RMB'000	Unallocated RMB'000	Group RMB'000
Total assets	425,441	76,529	721	502,691
Total liabilities	53,850	12,241	32,027	98,118

5 REVENUE AND SEGMENT INFORMATION – *continued*

For the year ended 31 December 2018

The segment information for the year ended 31 December 2018 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	378,729	67,376	(10,441)	–	435,664
Segment results	32,032	5,269	–	(4,848)	32,453
Finance costs – net (Note 10)					(5,831)
Profit before income tax					26,622
Income tax expense (Note 11)					(7,349)
Profit for the year					19,273
Other segment items					
Amortisation of land use rights (Note 14)	337	220	–	–	557
Depreciation (Note 15)	4,024	1,825	–	–	5,849
Additions to non-current assets	5,310	–	–	–	5,310

The segment assets and liabilities at 31 December 2018 are as follows:

	Plywood RMB'000	Biomass wood pellets RMB'000	Unallocated RMB'000	Group RMB'000
Total assets	444,216	98,835	264	543,315
Total liabilities	46,912	13,485	30,631	91,028

Disaggregation of revenue from contracts with customers

All of the Group's revenue was derived from the transfer of goods at a point in time. Therefore, no disclosure of disaggregation of revenue from contract with customers is presented.

6 EXPENSES BY NATURE

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
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 (Note 7)	**19,411**	28,001
Amortisation of right-of-use assets/land use rights (Note 14)	**1,107**	557
Depreciation (Notes 15)	**6,067**	5,849
Provision for inventory write-down (Note 16)	**5,970**	–
Provision for impairment charges for property, plant and equipment (Note 15)	**13,977**	–
Taxes and levies	**4,978**	3,133
Utilities	**1,967**	4,971
Audit fees	**1,150**	1,700
Other expenses	**4,088**	4,377
Total cost of sales, selling and distribution expenses and administrative expenses	**374,997**	407,222

7 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Salaries, wages and bonuses	**16,512**	23,590
Pension, housing fund, medical insurance and other social benefits	**2,899**	4,411
Total employee benefit expenses	**19,411**	28,001

The employees of the Group's subsidiaries established in Mainland China participate in defined contribution retirement benefit plans organised by the local governments under which the Group is required to make monthly contributions to these plans at the percentages of the employees' monthly salaries and wages, subject to certain ceilings.

7 EMPLOYEE BENEFIT EXPENSES – *continued*

Five highest paid individuals

The five individuals whose emoluments are the highest in the Group are all senior management and included four (2018: four) directors during the year, whose emoluments are reflected in the analysis shown in Note 31. The emoluments paid and payable to the remaining individual during the year are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Salaries and bonus	**644**	931
Pension, housing fund, medical insurance and other social benefits	**4**	15
	648	946

The number of highest paid non-director individuals, whose remuneration for the year fell within the following bands:

	Year ended 31 December	
	2019	2018
Emolument band (in HK$)		
Nil to HK$1,000,000	**1**	1

During the year, no emolument has been paid to the non-director highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

8 OTHER INCOME

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Sales of plywood core	2,683	2,991
Refund of value added tax ("VAT") (Note)	1,456	2,692
Amortisation of deferred income related to government grants	27	24
Government grants related to expenses	–	250
	4,166	5,957

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.

9 OTHER LOSSES — NET

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Impairment loss of inventories due to flooding (Note 16)	8,107	–
Loss due to forfeiture of a land purchase (Note 15)	3,300	–
Net losses from disposal of property, plant and equipment	710	–
Net foreign exchange (gains)/losses (Note 3.1(a))	(81)	294
Donations	–	5
Others	543	57
	12,579	356

10 FINANCE INCOME AND COSTS

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Finance income:		
– Interest income on bank deposits	(8)	(9)
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 (Note 3.1(a))	679	1,187
– Interest charges paid for lease liabilities (Note 14)	34	–
Subtotal:	5,493	5,840
Net finance costs	5,485	5,831

11 INCOME TAX (CREDIT)/EXPENSE

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Current income tax expense	–	7,656
Deferred income tax expense (Note 25)	(6,079)	(307)
Total income tax (credit)/expense	(6,079)	7,349

(i) Cayman Islands profit tax

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

11 INCOME TAX EXPENSE – *continued*

(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) Mainland China corporate income tax ("CIT")

CIT is provided on the assessable income of entities within the Group incorporated in Mainland China. The applicable CIT tax rate is 25% (2018: 25%) for the year.

(v) Mainland China withholding income tax

According to the new CIT Law, a 10% withholding tax will be levied on the immediate holding companies established out of Mainland China. A lower withholding tax rate may be applied if there is a tax treaty arrangement between Mainland China and the jurisdiction of the foreign immediate holding companies. During the year, no withholding tax has been provided (Note 25) as the directors have confirmed that the Group does not expect Mainland China subsidiaries to distribute the retained earnings as at 31 December 2019 in the foreseeable future.

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:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
(Loss)/Profit before income tax	(81,660)	26,622
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 (i) (ii)	11,988	826
Tax (credit)/charge	(6,079)	7,349

11 INCOME TAX EXPENSE – *continued*

(v) Mainland China withholding income tax – *continued*

(i) The expiration dates of unused tax losses for which no deferred tax asset has been recognised are as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Year of expiration		
2020	**–**	–
2021	**–**	–
2022	**–**	–
2023	**–**	–
2024	**30,711**	–
	30,711	–

(ii) The remaining unused tax losses were incurred by the company and dormant subsidiaries that is not likely to generate taxable income in the foreseeable future, They can be carried forward indefinitely.

12 (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.

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
(Loss)/Profit attributable to the shareholders	(75,581)	19,273
Weighted average number of ordinary shares in issue (thousands)	938,712	896,400
Basic (losses)/earnings per share (RMB cents per share)	(8.05)	2.15

(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.

13 SUBSIDIARIES

The Group's principal subsidiaries at 31 December 2019 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The place of incorporation or registration is also their principal place of business.

Company name	Place of incorporation/ operation and type of legal entity	Principal activities	Paid-up capital	Ownership interest held by the Group 2019	2018
Directly held:					
Heroic Group Limited 雄英集團有限公司	BVI, limited liability company	Investment holding	USD50,000	100%	100%
Indirectly held:					
Mei Sem (Hong Kong) Holding Co., Limited 美森（香港）控股有限公司	Hong Kong, limited liability company	Investment holding	HKD10,000	100%	100%
Dasen (Hong Kong) Holdings Company Limited 大森（香港）控股有限公司	Hong Kong, limited liability company	Investment holding	HKD10,000	100%	100%
Meisen (Shandong) Wood Limited 美森（山東）木業有限公司	Shandong Province, limited liability company	Manufacturing and sales of plywood	RMB199,946,734	100%	100%
Dasen (Heze) Biomass Energy Limited 大森（菏澤）生物質能源有限公司	Shandong Province, limited liability company	Manufacturing and sales of biomass wood pellets fuel	USD6,000,000	100%	100%
Da Sen Heze Advanced Materials Technology Company Limited 菏澤大森新型材料科技有限公司	Shandong Province, limited liability company	R&D, Manufacturing and Sales of New-material Plywood.	RMB10,000,000	100%	100%

14 RIGHT-OF-USE ASSETS AND LAND USE RIGHTS

As mentioned in Notes 2.2 and 2.22 above, the Group changed its accounting policies for leases where the Group is a lessee pursuant to the adoption of IFRS 16 "Leases" effective 1 January 2019. This note provides information for leases including land use rights, where the Group is a lessee.

14 RIGHT-OF-USE ASSETS AND LAND USE RIGHTS – *continued*

(i) Amounts recognised in the consolidated balance sheet

	2019 RMB'000	1 January 2019 (Note 2.2) RMB'000	2018 RMB'000
Right-of-use assets			
Properties	432	929	–
Land use rights	26,838	24,549	–
	27,270	25,478	–
Land use rights	–	–	24,549
Lease liabilities			
Properties			
– Current	472	497	–
– Non-current	–	432	–
	472	929	–

Movements in right-of-use assets in 2019 and land use rights in 2018 are analysed as follows:

	Right-of-use assets			Land use rights
	2019			2018
	Properties RMB'000	Land use rights RMB'000	Total RMB'000	Land use rights RMB'000
At 1 January	929	24,549	25,478	25,106
Additions	–	2,899	2,899	–
Amortisation charges (Note 6)	(497)	(610)	(1,107)	(557)
At 31 December	432	26,838	27,270	24,549

The land use rights are held with lease term of 50 years and the land is situated in Heze city, Shandong province, Mainland China.

As at 31 December 2019, land use rights of the Group with a total net book value of RMB20,182,000 (2018: RMB22,415,000) were pledged to secure short-term borrowings as disclosed in Note 22.

14 RIGHT-OF-USE ASSETS AND LAND USE RIGHTS – *continued*

(ii) Amounts recognised in the consolidated statements of comprehensive income

	2019			2018
	Properties RMB'000	Land use rights RMB'000	Total RMB'000	Land use rights RMB'000
Amortisation charges (Note 6)				
Cost of goods sold	–	570	570	521
Administrative expenses	497	40	537	36
	497	610	1,107	557
Interest expense (included in finance cost) (Note 10)			34	–
Net foreign exchange (gains)/losses (Notes 9)			21	–
Total charges to income statement			1,162	557

The total cash outflow for leases in 2019 was RMB528,000.

(iii) The Group's leasing activities and how these are accounted for

The Group leases an office premises in Hong Kong. The rental contract is made for a fixed period of 2 years. Extension and termination option are included in the contract.

The lease agreements do not impose any covenants. Leased assets may not be used as security for borrowing purposes.

15 PROPERTY, PLANT AND EQUIPMENT

	2019					
	Plant RMB'000	Machinery RMB'000	Furniture fixtures and equipment RMB'000	Vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2019	111,818	37,209	1,139	1,119	41,682	192,967
Additions	–	33	7	–	824	864
Transfer upon completion	–	103	–	–	(103)	–
Disposals	(665)	(1,806)	–	(324)	–	(2,795)
Transfer to other receivables (Note (a))	–	–	–	–	(21,239)	(21,239)
At 31 December 2019	111,153	35,539	1,146	795	21,164	169,797
Accumulated depreciation						
At 1 January 2019	(16,869)	(12,761)	(906)	(781)	–	(31,317)
Charge for the year	(3,545)	(2,347)	(91)	(84)	–	(6,067)
Disposals	104	869	–	266	–	1,239
At 31 December 2019	(20,310)	(14,239)	(997)	(599)	–	(36,145)
Provision for impairment loss						
At 1 January 2019	(561)	–	–	–	–	(561)
Charge for the year	(6,441)	(7,512)	(5)	(19)	–	(13,977)
Disposals	561	–	–	–	–	561
At 31 December 2019	(6,441)	(7,512)	(5)	(19)	–	(13,977)
Net book value						
At 31 December 2019	84,402	13,788	144	177	21,164	119,675

15 PROPERTY, PLANT AND EQUIPMENT – *continued*

	2018					
	Plant RMB'000	Machinery RMB'000	Furniture fixtures and equipment RMB'000	Vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2018	110,731	37,106	1,135	1,119	40,354	190,445
Additions	1,087	103	4	–	1,326	2,522
At 31 December 2018	111,818	37,209	1,139	1,119	41,682	192,967
Accumulated depreciation						
At 1 January 2018	(13,480)	(10,516)	(790)	(682)	–	(25,468)
Charge for the year	(3,389)	(2,245)	(116)	(99)	–	(5,849)
At 31 December 2018	(16,869)	(12,761)	(906)	(781)	–	(31,317)
Provision for impairment loss						
At 1 January and 31 December 2018	(561)	–	–	–	–	(561)
Net book value						
At 31 December 2018	94,388	24,448	233	338	41,682	161,089

15 PROPERTY, PLANT AND EQUIPMENT – *continued*

(a) Transfer of construction in progress to other receivables

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 RMB21,589,000, of which RMB21,239,000 was recorded in construction in progress (Note 15) and RMB350,000 was recorded in prepayments (Note 18) 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 9) 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 RMB350,000 were reclassified to other receivable as at 31 December 2019, and a provision of RMB10,795,000 was made against the receivable balance to cover the potential unrecoverable amount.

15 PROPERTY, PLANT AND EQUIPMENT – *continued*

(b) Other information

During the years ended 31 December 2019 and 2018, the amounts of depreciation expense charged to cost of sales and administrative expenses are as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Cost of sales	3,913	5,044
Administrative expenses	2,154	805
	6,067	5,849

As at 31 December 2019, plants of the Group with a total net book value of RMB41,235,000 (2018: RMB54,228,000), were pledged to secure short-term bank borrowings as disclosed in Note 22.

As at 31 December 2019, plants of the Group with a total net book value of RMB16,501,000 (2018: RMB16,669,000) were without real estate titles and they are under the process of getting the real estate certificates.

16 INVENTORIES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Raw materials	25,764	28,459
Work-in-progress	30,301	36,581
Finished goods	32,587	42,950
	88,652	107,990
Provision	(5,970)	–
	82,682	107,990

During the year 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.

In June 2019, the Group's subsidiary's warehouses in Sunsi 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.

17 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Financial assets		
Financial assets at amortised cost		
Trade and other receivables*	185,580	188,676
Cash and cash equivalents	51,007	48,298
	236,587	236,974
Financial liabilities		
Liabilities at amortised cost		
Trade and other payables*	8,373	5,536
Borrowings	59,839	69,226
	68,212	74,762

* Excluding non-financial assets and liabilities

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

18 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Trade receivables	182,828	195,495
Less: Provision for impairment	(8,334)	(7,822)
Trade receivables – net	174,494	187,673
Prepayments		
– Prepayments for raw materials	26,846	5,067
– Prepayments for land use rights	–	5,939
– Prepayments for Property, plant and equipment	2,351	–
Other receivables (Note 15)	21,881	1,003
Less: allowance for impairment of other receivables (Note 15)	(10,795)	–
	214,777	199,682
Less: Prepayments – non-current	(2,351)	(5,939)
	212,426	193,743

18 TRADE AND OTHER RECEIVABLES – *continued*

(a) **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
	RMB'000	RMB'000
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	**29,062**	22,490
	182,828	195,495

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.

(b) **Impairment and risk exposure**

The Group applies the IFRS 9 modified retrospective approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. No further loss allowance was recognised on 1 January 2018 for trade receivables. Note 3.1(b) provides details about the calculation of the allowance.

(c) 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 date. 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.

19 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Cash on hand	138	137
Cash at banks	50,869	48,161
Cash and cash equivalents	51,007	48,298

Cash at banks and on hand are denominated in the following currencies:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
RMB	50,321	48,103
USD	1	1
HKD	685	194
	51,007	48,298

20 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Amount		
		Share capital	Share premium	Total
	'000	RMB'000	RMB'000	RMB'000
At 1 January 2018 and 31 December 2018	896,400	7,906	185,321	193,227
At 1 January 2019	896,400	7,906	185,321	193,227
Placing of new shares	78,000	686	27,181	27,867
At 31 December 2019	**974,400**	**8,592**	**212,502**	**221,094**

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 HKD 0.01 each as at 31 December 2019 and 2018.

21 OTHER RESERVES

	Capital Reserves (a)	Statutory Reserves (b)	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2018	26,889	23,999	50,888
Profit appropriation to statutory reserve	–	2,054	2,054
At 31 December 2018, 1 January 2019 and 31 December 2019	**26,889**	**26,053**	**52,942**

21 OTHER RESERVES – *continued*

(a) Capital reserves

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

(b) Statutory reserves

Statutory reserves represent statutory surplus reserve of the subsidiary companies in Mainland China. The Company's subsidiaries incorporated in Mainland China 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 Mainland China at rate of 10% or at the discretion of the Board of Directors of the Mainland China 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.

22 BORROWINGS

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

22 BORROWINGS – *continued*

(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 amount 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	**10,468**	15,297
	30,039	28,226

(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 (Note 28(a)).

For the year ended 31 December 2019, the weighted average effective 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.

23 TRADE AND OTHER PAYABLES

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Trade payables (a)	834	282
Employee benefit payables	5,185	3,066
Other taxes payable (b)	15,804	3,586
Interest payable	931	772
Advances from customers	926	465
Others	6,068	4,482
	30,288	12,653

(a) Trade payables

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
	RMB'000	RMB'000
Within 3 months	834	282

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 payables

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 produced. 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.

24 DEFERRED INCOME

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Government grants relating to property, plant and equipment	**342**	369

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 consolidated statements of comprehensive income on a straight-line basis over the expected useful lives of the related assets.

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

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
At beginning of year	**369**	393
Amortised as income (Note 8)	**(27)**	(24)
At end of year	**342**	369

25 DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Deferred income tax assets:		
– Deferred income tax asset to be recovered after 12 months	2,375	(1,787)
– Deferred income tax asset to be recovered within 12 months	4,905	3,494
	7,280	1,707
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled after 12 months	–	(1,243)
– Deferred income tax liabilities to be settled within 12 months	–	737
	–	(506)
Deferred income tax assets (net)	7,280	1,201

25 DEFERRED INCOME TAX – *continued*

The gross movement of the deferred income tax assets (net) is as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
At beginning of year	1,201	894
Charged to consolidated statement of comprehensive income (Note 11)	6,079	307
At end of year	7,280	1,201

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets	Impairment losses RMB'000	Government grants RMB'000	Amortisation difference of unrecognised finance lease charge RMB'000	Employee benefits and interest payable accrual RMB'000	Total RMB'000
At 1 January 2018	1,698	100	402	1,427	3,627
Credited/(charged) to the consolidated statements of comprehensive income	397	(6)	(21)	816	1,186
At 31 December 2018	2,095	94	381	2,243	4,813
At 1 January 2019	2,095	94	381	2,243	4,813
Credited/(charged) to the consolidated statements of comprehensive income	7,673	(7)	(53)	(946)	6,667
At 31 December 2019	9,768	87	328	1,297	11,480

25 DEFERRED INCOME TAX – *continued*

Deferred income tax liabilities	Depreciation difference of property, plant and equipment	Capitalised interest	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2018	2,529	204	2,733
Charged/(credited) to the consolidated statements of comprehensive income	890	(11)	879
At 31 December 2018	3,419	193	3,612
At 1 January 2019	**3,419**	**193**	**3,612**
Charged/(credited) to the consolidated statements of comprehensive income	**597**	**(9)**	**588**
At 31 December 2019	**4,016**	**184**	**4,200**

Deferred income tax liabilities have not been recognised for the withholding tax that would be payable on the earnings of Mainland China subsidiaries up to 31 December 2019, as there is no plan of dividends distribution of such earnings in the foreseeable future. Unremitted earnings and the related deferred income tax liabilities have not been recognised for the year are as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Unremitted earnings of Mainland China subsidiaries	**179,715**	224,454
Deferred income tax liabilities not recognised for withholding tax	**17,972**	22,445

26 CASH USED IN OPERATIONS

(a) Reconciliation of (loss)/profit before income tax to cash used in operations

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
(Loss)/profit before income tax	(81,660)	26,622
Adjustments for:		
– Depreciation of property, plant and equipment (Note 15)	6,067	5,849
– Depreciation of right-of-use asset (Note 14)	497	–
– Other loss/(gain) – net (Note 9)	11,407	–
– Provision for inventory write-down (Note 16)	5,970	–
– Provision for impairment charge for property, plant and equipment (Note 15)	13,977	–
– Amortisation of land use right (Note 14)	610	557
– Amortisation of deferred income (Note 24)	(27)	(24)
– Net losses on disposal of property, plant and equipment (Note 9)	710	–
– Provision for impairment of receivables (Note 3.1(b)) (Note 18)	11,307	1,590
– Finance costs – net (Note 10)	5,485	5,831
Changes in working capital		
– Inventories	11,231	(19,035)
– Trade and other receivables	(8,402)	(35,761)
– Trade and other payables	17,532	(5,727)
Cash used in operations	(5,296)	(20,098)

(b) Proceeds from disposal of property plant and equipment

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Net book amount for disposals (Note 15)	995	–
Losses on disposal of property, plant and equipment – net (Note 9)	(710)	–
Proceeds from disposal of property, plant and equipment	285	–

26 CASH USED IN OPERATIONS – *continued*

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for the year ended 2019:

	Borrowings. due within 1 year RMB'000	Borrowings. due after 1 year RMB'000	Total RMB'000
At 31 December 2018	45,379	23,847	69,226
Cash flows			
– Inflow from financing activities	44,809	–	44,809
– Outflow from financing activities	(55,395)	–	(55,395)
Foreign exchange adjustments	82	555	637
Other non-cash movements			
– Reclassification	1,779	(1,779)	–
– Amortization of bonds	449	113	562
At 31 December 2019	**37,103**	**22,736**	**59,839**

27 COMMITMENTS

(a) Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Property, plant and equipment (Note 15)	**5,430**	24,912
Land use rights	**–**	3,290
	5,430	28,202

27 COMMITMENTS – *continued*

(b) Non-cancellable operating leases

The Group leases office under non-cancellable operating lease agreements. The lease term is 2 years, and the lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
No later than 1 year	–	566
Later than 1 year and no later than 5 years	–	471
	–	1,037

28 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 Shican	Shareholder and Executive Director of the Company
Mr. Cai Jinxu	Former 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 year, and balances arising from related party transactions as at the respective balance sheet dates:

28 RELATED PARTY TRANSACTIONS – *continued*

(a) Guarantees provided by related parties in respect of the Group's short-term borrowings from banks

As at 31 December 2019, the Group's short-term borrowings of RMB19,800,000 were guaranteed by Mr. Ke Mingcai together with his spouse via guarantee agreements between these individuals and banks; And the remaining short-term borrowings of RMB10,000,000 were guaranteed by Mr. Ke Mingcai together with Mr. Zhang Ayang and Mr Cai Qiren via guarantee agreements between these individuals and banks (Note 22(b)).

As at 31 December 2018, the Group's short-term borrowings of RMB41,000,000 were guaranteed by Mr. Ke Mingcai together with his spouse, and Mr. Cai Jinxu via guarantee agreements between these individuals and banks (Note 22(b)).

(b) Key management personnel compensation

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Salaries and bonus	**5,133**	4,401
Pension, housing fund, medical insurance and other	**83**	121
	5,216	4,522

29 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 set of financial statements 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.

30 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

(a) Balance sheet of the Company

	As at 31 December	
	2019 RMB'000	2018 RMB'000
ASSETS		
Non-current assets		
Investment in subsidiaries	136,450	136,450
Other receivables	73,454	52,572
	209,904	189,022
Current assets		
Trade and other receivables	157,571	151,614
Cash and cash equivalents	622	3
	158,193	151,617
Total assets	368,097	340,639
EQUITY		
Capital and reserves attributable to the shareholders		
Share capital	8,592	7,906
Share premium	212,502	185,321
Other reserves	136,448	136,450
Accumulated losses	(23,748)	(21,944)
Total equity	333,794	307,733
LIABILITIES		
Non-current liabilities		
Borrowings	22,736	23,847
Current liabilities		
Borrowings	7,303	4,379
Trade and other payables	4,264	4,680
	11,567	9,059
Total liabilities	34,303	32,906
Total equity and liabilities	368,097	340,639

The balance sheet of the Company was approved by the Board of Directors on 31 March 2020 and was signed on its behalf.

KE Mingcai	**WANG Songmao**
Director	*Director*

30 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY – *continued*

(b) Reserve movement of the Company

	Other reserves RMB'000	Accumulated losses RMB'000
At 1 January 2018	136,450	(25,104)
Profit for the year	–	3,160
At 31 December 2018	136,450	(21,944)
Profit for the year	–	(1,804)
At 31 December 2019	136,450	(23,748)

31 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and the chief executive's emoluments

The remuneration of each director and the chief executive of the Company for the year is set out as follows:

	Fees RMB'000	Salary RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Year ended 31 December 2019				
Executive directors:				
Mr. Ke Mingcai	158	889	16	1,063
Mr. Wang Songmao (i)	158	577	16	751
Mr. Zhang Ayang	158	577	16	751
Mr. Wu Shican	158	577	16	751
Mr. Wong Ben	158	152	8	318
Mr. Chai Kaw Sing	158	152	8	318
Independent Non-executive directors				
Mr. Lin Triomphe Zheng	120	–	–	120
Mr. Shao Wanlei	120	–	–	120
Mr. Wang Yuzhao	84	–	–	84
	1,272	2,924	80	4,276

31 BENEFITS AND INTERESTS OF DIRECTORS – *continued*

(a) Directors' and the chief executive's emoluments – *continued*

	Fees RMB'000	Salary RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Year ended 31 December 2018				
Executive directors:				
Mr. Ke Mingcai	152	857	28	1,037
Mr. Wang Songmao (i)	152	515	15	682
Mr. Zhang Ayang	152	515	15	682
Mr. Wu Shican	152	515	15	682
Independent Non-executive directors				
Mr. Lin Triomphe Zheng	120	–	–	120
Mr. Shao Wanlei	120	–	–	120
Mr. Wang Yuzhao	60	–	–	60
	908	2,402	73	3,383

(i) The chief executive of the Company is Mr. Wang Songmao, who is also a director of the Company.

There was no bonus paid to the directors of the Company for the years ended 31 December 2019 and 2018.

No payment was made to directors as retirement benefits during the years ended 31 December 2019 and 2018.

No payment was made to directors as compensation for the early termination of the appointment during the years ended 31 December 2019 and 2018.

No payment was made to the any third parties for making available directors' services during the years ended 31 December 2019 and 2018.

There are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the years ended 31 December 2019 and 2018.

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director had a material interest, whether directly or indirectly, subsisted at each of the year ended 31 December 2019 and 2018 or at any time during the years.

	Years ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	318,542	435,664	499,563	466,118	380,860
Gross profit	(28,652)	55,493	97,251	106,149	83,490
Operating (loss)/profit	(76,175)	32,453	73,801	79,756	67,095
(Loss)/Profit before income tax	(81,660)	26,622	69,363	75,262	61,668
Income tax (credit)/expense	6,079	(7,349)	(19,220)	(22,031)	(16,446)
Total comprehensive (loss)/income for the year, attributable to the shareholders of the Company	(75,581)	19,273	50,143	53,231	45,222
(Losses)/Earnings per share for profits attributable to the shareholders of the Company – Basic and diluted	(8.05 cents)	2.15 cents	6.59 cents	9.74 cents	8.37 cents

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	156,576	193,284	193,593	124,184	130,655
Current assets	346,115	350,031	322,790	302,419	105,219
Total assets	502,691	543,315	516,383	426,603	235,874
Non-current liabilities	23,078	24,722	23,128	417	1,575
Current liabilities	75,040	66,306	60,241	134,399	97,886
Total liabilities	98,118	91,028	88,369	134,816	99,461
Total equity	404,573	452,287	433,014	291,787	136,413