# 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

# 2020
## INTERIM REPORT

# CONTENT PAGE



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

# DEFINITIONS

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

| | |
|---|---|
| "Board" | the board of Directors |
| "China" or "PRC" | the People's Republic of China |
| "Company" | Da Sen Holdings Group Limited |
| "Director(s)" | the director(s) of the Company |
| "Group", "our Group", "we", "us" or "our" | the Company and its subsidiaries or, where the context so requires in respect of the period before the Company became the holding company of the present subsidiaries, the present subsidiaries of the Company and the business carried on by such subsidiaries or (as the case may be) their predecessors |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "RMB" | Renminbi Yuan, the lawful currency of the PRC |
| "SFO" | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time |
| "Share(s)" | ordinary share(s) of the Company, with a nominal value of HK$0.01 each |
| "Shareholder(s)" | holder(s) of the Shares |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |

## BOARD

| | |
|---|---|
| Mr. WANG Songmao | *(Chief executive officer and executive Director)* |
| Mr. WONG Ben | *(Executive Director)* |
| Mr. CHAI Kaw Sing | *(Executive Director)* |
| Mr. ZHANG Ayang | *(Executive Director)* |
| Mr. WU Shican | *(Executive Director)* |
| Mr. WANG Yuzhao | *(Independent non-executive Director)* |
| Mr. SUN Yongytao | *(Independent non-executive Director) (appointed on 27 May 2020)* |
| Mr. TSO Siu Lun Alan | *(Independent non-executive Director) (appointed on 27 May 2020)* |
| Mr. WONG Wai Keung Frederick | *(Independent non-executive Director) (appointed on 27 May 2020)* |
| Mr. KE Mingcai | *(Chairman and executive Director) (retired on 22 May 2020)* |
| Mr. LIN Triomphe Zheng | *(Independent non-executive Director) (retired on 22 May 2020)* |
| Mr. SHAO Wanlei | *(Independent non-executive Director) (retired on 22 May 2020)* |

## COMPANY SECRETARY

Mr. LEUNG Wing Lun *(HKICPA)*

## AUDIT COMMITTEE

Mr. WONG Wai Keung Frederick *(Chairman)*
Mr. SUN Yongtao
Mr. TSO Siu Lun Alan
Mr. WANG Yuzhao

## REMUNERATION COMMITTEE

Mr. WANG Yuzhao *(Chairman)*
Mr. SUN Yongtao
Mr. TSO Siu Lun Alan
Mr. WONG Wai Keung Frederick

## NOMINATION COMMITTEE

Mr. TSO Siu Lun Alan *(Chairman)*
Mr. SUN Yongtao
Mr. WANG Yuzhao
Mr. WONG Wai Keung Frederick

## RISK MANAGEMENT COMMITTEE

Mr. WU Shican *(Chairman)*
Mr. SUN Yongtao
Mr. WONG Wai Keung Frederick
Mr. ZHANG Ayang

## AUTHORISED REPRESENTATIVES

(for the purpose of the Listing Rules)

Mr. WONG Ben *(appointed on 22 May 2020)*
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

Room 2703, 27th Floor,
K. Wah Centre,
No. 191 Java Road,
North Point, 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

## BUSINESS REVIEW

The Group's principal business is manufacturing 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 to maintain a high environmental protection standard. The Group's current management team emphasizes stringent quality control in both plywood products and biomass wood pellets, raising the recognition among the customers continuously 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 trade the Group's plywood products to their downstream customers. Those three types of plywood products serve similar functions to customers of the Group and the main differences are in 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 RMB80.1 million, representing approximately 96.4% of the Group's total revenue for the six months ended 30 June 2020.

The strategic location of the production base of the Group in Heze City, Shandong Province in China, which has abundant resources of poplars, provides solid and sustainable supply for the Group's manufacture of plywood products. In addition, since the Group is one of the major customers for purchasing wood-based raw materials in Heze City, Shandong Province and accordingly, the Group enjoys a stable supply of raw materials for the manufacture of plywood products.

Customers of the Group's plywood products are mainly end users, such as furniture manufacturers, equipment manufacturers, decoration or renovation companies and packing material producers, and there are also some trading companies sourcing plywood products from the Group for on-selling to their downstream customers with or without processing. Most customers of the Group's plywood products are located at Eastern China and Southern China regions. There was a total of 61 customers of plywood products for the six months ended 30 June 2020, out of which the five largest customers contributed to approximately 50.4% of the total revenue of plywood products of which approximately 23.7% of revenue were derived from two external customers that exceeded 10% of the total revenue of the Group for the six months ended 30 June 2020.

### Biomass wood pellets

The Group produces biomass wood pellets using wood residues (also known as sanshengwu (三剩物)). Biomass wood pellets is a relatively clean fuel as compared with other traditional forms of fuel, such as coal. Biomass wood pellets also have competitive edge in transport, storage, combustibility and emission as compared to traditional fuel due to its solid nature and its smaller size. Biomass wood pellets contain zero sulfate and phosphorous, therefore no polluting 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 to trade to their downstream customers.

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 since 2019. During the six months ended 30 June 2020, the Group recorded a revenue of approximately RMB3.0 million, representing a drop of approximately 60.8% from approximately RMB7.5 million for the six months ended 30 June 2019. The Group has been and will continue to explore 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.

## OUTLOOK

During the six months ended 30 June 2020, the Group made discounted sales for its products in response to the outbreak of COVID-19, which caused a significant drop in market demand for the Group's products. With encouraging signs of economic recovery following the abatement of COVID-19, management of the Group estimates that the momentum of economic recovery would continue to pick up and the market demand would gradually resume to normal. Accordingly, the selling prices and sales volumes of the Group's products are also estimated to increase contributing a better operating profit to the Group.

The outbreak of COVID-19, the Sino-US trade war and economic downturn in the PRC partly contributed to the poor financial performance of the Group. Going forward, the Board will review its management structure and competence, closely monitor the operational and financial performance of the Group and further strengthening of the systems of internal control, with a view to properly restructure the Group by diversifying its business while strengthening its management capabilities.

The Board will also explore opportunities in solicitating strategic investors and business partners with the aim of expanding the business scope, sales and distribution network and operational capabilities of the Group.

## FINANCIAL REVIEW

As disclosed in the annual report of the Company for the year ended 31 December 2019, the Central People's Government of the PRC has implemented a number of environmental measures to reduce environmental pollution in the PRC. Those measures have given challenges to the manufacturing industry in the PRC as a result of more stringent requirements imposed on the manufacturing process, which resulted in a higher production cost for the manufacturing companies. Consequently, the Group experienced 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 experience 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. The management endeavours to improve the profitability of the sales of the Group's products, including but not limited to, explore 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 the selling prices of the Group's products.

Despite the Group's biomass wood pellets being considered as a clean and new alternative energy source which fit 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 deterred potential buyers. In addition, certain measures have been implemented by the local Government departments of certain cities in PRC to promote the use of natural gas and reduce the use of combustion boiler, in which biomass wood pellets are burned to generate energy. 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 ended 31 December 2019. The Group is currently exploring other business opportunities and may consider ceasing the biomass wood pellets business should we identify any other options which could bring higher returns to the shareholders of the Company.

During the year ended 31 December 2019, the Group experienced the following:

1. Drop in sales price of the Group's plywood products and biomass wood pellets products;

2. Drop in volume of the Group's plywood products and biomass wood pellets products due to the Sino-US trade war and economic downturn in the PRC;

3. Drop in gross profit margin resulting in a negative gross profit margin; and

4. Increase in cost of production which cannot be transferred over to the customers.

These events and circumstances (the "Events and Circumstances") which started in 2019 have negatively impacted the Group's operations and results of that year. The Events and Circumstances resulted in the impairment of certain assets including inventories and property, plant and equipment in 2019. As the market conditions have continued to deteriorate further in the first half of 2020 and extending the negative effects of the Events and Circumstances, such impact was expected to and had continued to negatively affect the operations and results of the Group for the six months ended 30 June 2020.

Details of the operations and results of the Group for the six months ended 30 June 2020 are set out below:

**Revenue**

The Group experienced a drop in revenue of approximately 46.4%, from approximately RMB155.1 million for the six months ended 30 June 2019 to approximately RMB83.1 million for the six months ended 30 June 2020. Such drop in revenue was attributed to the drop in sales for both plywood products and biomass wood pellets for the six months ended 30 June 2020. Revenue arising from plywood products dropped from approximately RMB147.6 million for the six months ended 30 June 2019 to approximately RMB80.1 million for the six months ended 30 June 2020, and revenue arising from biomass wood pellets dropped from approximately RMB7.5 million for the six months ended 30 June 2019 to approximately RMB3.0 million for the six months ended 30 June 2020.

The outbreak of the novel coronavirus disease ("COVID-19") during the first half of 2020 had significant impact on the global economic activities. Consequently, the Group's customers reduced their purchase orders on plywood products. As an interim measure to improve liquidity, the Group made the decision to lower the selling price for the Group's plywood products during the six months ended 30 June 2020, which contributed to the overall drop in the Group's revenue from plywood products.

The Central People's Government of China has taken a more stringent approach on environmental measures and some of the Group's customers on biomass wood pellets shifted to use natural gas. Accordingly, the Group's revenue from biomass wood pellets dropped during the six months ended 30 June 2020.

**Gross loss/profit**

The overall gross loss/profit margin of the Group dropped from a gross profit margin of approximately 9.1% for the six months ended 30 June 2019 to a gross loss margin of approximately 121.3%. The gross loss for the six months ended 30 June 2020 included impairments on inventories and property, plant and equipment balances of approximately RMB33.7 million and approximately RMB28.2 million respectively. Excluding such one-off impairments, the adjusted gross loss margin for the six months ended 30 June 2020 was approximately 46.8%.

**Other income**

The Group's other income mainly comprised income earned from refund of value-added tax arising from the sales of the Group's biomass wood pellets, and also income from sales of poplar core being the residuals generated from the production the Group's plywood products. A decrease in the Group's other income from approximately RMB2.0 million for the six months ended 30 June 2019 to approximately RMB1.2 million for the six months ended 30 June 2020 was mainly due to lesser refund of value-added tax on biomass wood pellets received during the six months ended 30 June 2020.

**Selling and distribution expenses**

The Group's selling and distribution expenses mainly represented employee benefits expenses incurred for the sales team and also the distribution costs for our products for the six months ended 30 June 2020.

### Administrative expenses

The Group's administrative expenses mainly represented research and development expenses, directors' remuneration, employee benefits expenses for administrative staff, depreciation expenses on office buildings and office equipment, and legal and professional expenses.

Decrease in the Group's administrative expenses from approximately RMB9.0 million for the six months ended 30 June 2019 to approximately RMB8.1 million for the six months ended 30 June 2020 was mainly due to the decrease in raw materials and consumables used for research and development recorded during the six months ended 30 June 2020.

### (Provision for)/reversal of net impairment losses on financial assets

The net impairment losses on financial assets of approximately RMB22.6 million for the six months ended 30 June 2020 was mainly due to the provision for impairment of trade receivables (note 13).

### Finance costs

The Group's finance costs represented interest charged by financial institutions in China and also amortised interest in respect of the individual bonds issued by the Company.

The Group maintained similar level of finance costs for both the six months ended 30 June 2019 and 2020.

### Income tax expenses

The Group's income tax expenses represented the current income tax and deferred income tax charge/(credit) on operating profits earned/(losses incurred) in China by the Group's subsidiaries established in China and the statutory tax rate applied is 25%.

The amount of deferred tax credit of approximately RMB37.7 million recorded during the six months ended 30 June 2020 was in respect of the tax losses mainly generated by one of the Group's PRC subsidiaries during the period as such tax losses can be utilised to offset against future taxable profits expected to be generated by the corresponding subsidiaries in PRC in the upcoming five years.

### Total comprehensive (loss)/income attributable to the shareholders of the Company

The Group's total comprehensive income attributable to the shareholders of the Company dropped from approximately RMB4.4 million for the six months ended 30 June 2019 to total comprehensive loss attributable to the shareholders of the Company of approximately RMB96.4 million for the six months ended 30 June 2020. Decrease in total comprehensive (loss)/income attributable to the shareholders of the Company is mainly due to the reasons stated above.

### Property, plant and equipment

The Group currently has two production plants in Heze City, Shandong Province, China for the production of plywood products and biomass wood pellets respectively. The drop in property, plant and equipment was mainly attributable to the provision for impairment on production operating equipment of RMB28.2 million (note 10).

As at 30 June 2020, the Group's items of property, plant and equipment with carrying amount of approximately RMB35.4 million were pledged to the financial institutions as security for certain of the bank borrowings advanced to the Group.

### Inventory

The Group's inventory balance comprised raw materials, work in progress and finished goods for both plywood products and biomass wood pellets. A decrease in balance from approximately RMB82.7 million as at 31 December 2019 to approximately RMB36.9 million as at 30 June 2020 was mainly due to the provision for write-down on inventory balance of approximately RMB33.7 million (note 12).

### Gearing ratio

Our Group's gearing ratio, calculated based on the total interest-bearing debts divided by the total equity, was approximately 19.7% as at 30 June 2020 (approximately 14.8% as at 31 December 2019).

## USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING (THE "IPO")

As at 30 June 2020, 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 pertaining to the IPO 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:

| | Allocation of net proceeds RMB'000 | Unutilised net proceeds as of 31 December 2019 RMB'000 | Actual use of net proceeds for the six months ended 30 June 2020 RMB'000 | Unutilised net proceeds as of 30 June 2020 RMB'000 | Expected timeline of full utilisation of the remaining unutilised net proceeds as of 30 June 2020 |
|---|---|---|---|---|---|
| Production lines for plywood products and biomass wood pellets | 66,800 | 13,464 | – | 13,464 | By end of 2020 |
| Expansion of sales and marketing network | 16,400 | 11,075 | – | 11,075 | By end of 2020 |
| General working capital | 11,000 | (11,000) | – | – | |
| New production facilities | 15,800 | (15,800) | – | – | |
| **Total** | **110,000** | **85,461** | **–** | **24,539** | |

The estimated schedule for utilising the remaining net proceeds of the IPO was based on the best estimation made by the Group as of 30 June 2020 with reference to the then prevailing, present and future market conditions, and may change with the current market condition and future development.

During the six months ended 30 June 2020, the net proceeds from the IPO was used in accordance with the intended purposes as previously disclosed and there was no material change in the use of proceeds. The unutilised amount is also expected to be used in accordance with the intended purposes as disclosed and stated above.

## USE OF PROCEEDS FROM PLACING OF NEW SHARES ON 28 NOVEMBER 2017 (THE "2017 PLACING")

As at 30 June 2020, 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 30 June 2020.

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 Ministry of Natural Resources of the PRC. 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. The Company 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 detailed breakdown and description of its actual use of proceeds from the 2017 Placing and expected timeline for the utilisation of unutilised net proceeds of RMB28 million as of 30 June 2020 as below:

| | Allocation of net proceeds RMB'000 | Unutilised net proceeds as of 31 December 2019 RMB'000 | Actual use of net proceeds for the six months ended 30 June 2020 RMB'000 | Unutilised net proceeds as of 30 June 2020 RMB'000 | Expected timeline of full utilisation of the remaining unutilised net proceeds as of 30 June 2020 |
|---|---|---|---|---|---|
| Construction of New Production Facilities | 75,600 | 28,000 | – | 28,000 | By end of 2022 |

As disclosed in the annual report of the Company for the year ended 31 December 2019, the Company decided to suspend the plan on the construction of new production facilities due to the difficult business environment caused by the Sino-US trade war and a decreased demand in the Group's products. The land lots previously acquired for the new production facilities were subsequently sold to a third party through land auction in December 2019. Since the land lots were sold, the buildings constructed thereon no longer belongs to the Group. The Group will continue to negotiate with the government to recoup the construction costs and prepayments previously incurred by the Group. The management of the Group has also started to make assessment on other plans for better use of the Unutilised Proceeds from 2017 Placing. Such assessment is expected to be finalised by the September 2020, and the Company will decide the use of the Unutilised Proceeds from 2017 Placing thereafter based on the results of the assessment.

## USE OF PROCEEDS FROM PLACING OF NEW SHARES ON 17 JUNE 2019 (THE "2019 PLACING")

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. 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.

| | Allocation of the net proceeds from 2019 Placing | Actual use of the net proceeds from 2019 Placing as of 31 December 2019 | Unutilised net proceeds from 2019 Placing |
|---|---|---|---|
| | HKD'000 | HKD'000 | HKD'000 |
| Repayment of existing secured fixed-interest bank borrowings | 11,347 | 11,347 | – |
| General working capital of the Group | 20,353 | 20,353 | – |
| Total | 31,700 | 31,700 | – |

As of 31 December 2019, the net proceeds from 2019 Placing was fully utilised and was used in accordance with the intended purposes as previously disclosed and there was no material change in the intended use of such proceeds.

## LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2020, the aggregate carrying value of the Group's borrowings was approximately RMB60.7 million, which comprised bonds and short-term bank borrowings. The borrowings from banks was denominated in RMB. As at 30 June 2020, the Group maintained bank and bank balances of approximately RMB30.1 million. As at 30 June 2020, the Group had trade receivables of approximately RMB139.8 million.

The Company did not make any fund raising or any capital reorganisation during the period under review and the Group does not have any other fund raising plans as at 30 June 2020.

## SUFFICIENCY OF PUBLIC FLOAT

As at 30 June 2020, based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained during the year the amount of public float as required under the Listing Rules.

## COMPLIANCE

The Company has applied the principles and complied with the applicable code provisions in the Corporate Governance Code contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2020.

## 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.

The Company has made specific enquiry to all Directors, and all Directors have confirmed that they had complied with the standards set out in the Model Code throughout the six months ended 30 June 2020.

## AUDIT COMMITTEE

The audit committee of the Company has reviewed this interim report, including the condensed consolidated financial statements of the Group for the six months ended 30 June 2020.

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

At 30 June 2020, the interests and short positions of the Directors and chief executive in the share capital and underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in Shares:

| | Number of Shares held, capacity and nature of interest | | | | |
|---|---|---|---|---|---|
| Name of Director | Directly beneficially owned | Through spouse or minor children | Interest in persons acting in concert *(note 1)* | Total | Percentage of the Company's share capital |
| 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 | 35,060,000 | 16,300,000 | – | 51,360,000 | 5.27% |

*Notes:*

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

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

Save as disclosed above, as at 30 June 2020, none of the Directors and chief executive had registered an interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

At 30 June 2020, the following interests and short positions of 5% or more of the share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

| | Number of Shares held, capacity and nature of interest | | | |
|---|---|---|---|---|
| Name | Directly beneficially owned | Interest in persons acting in concert *(note 1)* | Total | Percentage of the Company's share capital |
| Mr. WONG Tseng Hon | 221,405,000 | – | 221,405,000 | 22.72% |
| Mr. KE Mingcai | 232,380,800 | 69,668,000 | 302,048,800 | 31.00% |
| 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, KE Mingcai, CAI Jinxu, WANG Songmao, LIN Qingxiong, WU Shican and WU Haiyan have agreed on certain arrangements pertaining to their shareholdings in the Company. Pursuant to the SFO, since each of LIN Qingxiong and WU Haiyan is a party to the Concert Party Agreement, each of LIN Qingxiong and WU Haiyan is deemed to be interested in the Shares which the other parties to the Concert Party Agreement are interested in.

## EMOLUMENT POLICY

The Group had 181 employees in Hong Kong and the PRC as at 30 June 2020. The total salaries and related costs granted to employees amounted to approximately RMB6.4 million for the six months ended 30 June 2020.

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

## SHARE OPTION SCHEME

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

At no time during the six months ended 30 June 2020 were rights to acquire benefits by means of the acquisition of Shares or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

As at 31 December 2019 and 30 June 2020, the Company did not have share options outstanding under the Scheme.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2020.

## DIVIDENDS

The Board resolved not to declare any interim dividend in respect for the six months ended 30 June 2020.

## FOREIGN EXCHANGE EXPOSURE

The Group mainly earns revenue in RMB and incurs costs in RMB and HK$. The Group is exposed to foreign exchange risk based on fluctuations between RMB and HK$ arising from its core operation in the PRC. In order to minimise the foreign currency risk exposure between these two currencies, the Group generally maintains cash balances in both currencies that are sufficient to meet three to four months of operating cash flows requirements of the Group.

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 Reporting Period. The Group will continue to monitor foreign currency risk exposure and will consider hedging significant foreign currency risk should the need arise.

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

| | Note | Six months ended 30 June 2020 RMB'000 Unaudited | Six months ended 30 June 2019 RMB'000 Unaudited |
|---|---|---|---|
| Revenue | 6 | 83,070 | 155,088 |
| Cost of sales | | (183,806) | (141,038) |
| **Gross (loss)/profit** | | (100,736) | 14,050 |
| Selling and distribution expenses | | (433) | (242) |
| Administrative expenses | | (8,072) | (8,965) |
| (Provision for)/Reversal of net impairment losses on financial assets | | (22,607) | 2,216 |
| Other income | | 1,234 | 1,984 |
| Other (losses)/gains — net | | (566) | 340 |
| **Operating (loss)/profit** | 7 | (131,180) | 9,383 |
| Finance income | | 5 | 4 |
| Finance costs | | (2,941) | (2,455) |
| Finance costs — net | | (2,936) | (2,451) |
| **(Loss)/Profit before income tax** | | (134,116) | 6,932 |
| Income tax credit/(expense) | 8 | 37,722 | (2,493) |
| **(Loss)/Profit for the period** | | (96,394) | 4,439 |
| Other comprehensive income for the period | | — | — |
| **Total comprehensive (loss)/income for the period and attributable to the shareholders of the Company** | | (96,394) | 4,439 |
| **(Losses)/Earnings per share for (loss)/profit attributable to the shareholders of the Company for the period** (expressed in RMB cents per share) | | | |
| — Basic and diluted | 9 | (9.89) | 0.49 |

The notes on pages 21 to 42 are an integral part of this interim condensed consolidated financial statements.

As of 30 June 2020

| | Note | 30 June 2020 RMB'000 Unaudited | 31 December 2019 RMB'000 Audited |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Right-of-use assets | 11 | **26,533** | 27,270 |
| Prepayments | | **5,331** | 2,351 |
| Property, plant and equipment | 10 | **99,482** | 119,675 |
| Deferred income tax assets | | **45,002** | 7,280 |
| | | **176,348** | 156,576 |
| **Current assets** | | | |
| Inventories | 12 | **36,902** | 82,682 |
| Trade and other receivables | 13 | **167,480** | 212,426 |
| Cash and bank balances | | **30,145** | 51,007 |
| | | **234,527** | 346,115 |
| **Total assets** | | **410,875** | 502,691 |
| **EQUITY** | | | |
| **Equity attributable to the shareholders of the Company** | | | |
| Share capital | 14 | **8,592** | 8,592 |
| Share premium | 14 | **212,502** | 212,502 |
| Other reserves | | **52,942** | 52,942 |
| Retained earnings | | **34,143** | 130,537 |
| **Total equity** | | **308,179** | 404,573 |

# INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As of 30 June 2020

| | Note | 30 June 2020 RMB'000 Unaudited | 31 December 2019 RMB'000 Audited |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 15 | **23,253** | 22,736 |
| Deferred income | 17 | **330** | 342 |
| | | **23,583** | 23,078 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 16 | **34,539** | 30,288 |
| Current income tax liabilities | | **7,169** | 7,177 |
| Borrowings | 15 | **37,405** | 37,103 |
| Lease liabilities | | **–** | 472 |
| | | **79,113** | 75,040 |
| **Total liabilities** | | **102,696** | 98,118 |
| **Total equity and liabilities** | | **410,875** | 502,691 |

| | Unaudited | | | | |
|---|---|---|---|---|---|
| | Equity attributable to the shareholders of the Company | | | | |
| | Share capital (Note 14) RMB'000 | Share premium (Note 14) RMB'000 | Other reserves RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
| **Balance at 1 January 2020** | 8,592 | 212,502 | 52,942 | 130,537 | 404,573 |
| **Total comprehensive loss for the period ended 30 June 2020** | | | | | |
| Loss for the period | – | – | – | (96,394) | (96,394) |
| **Balance at 30 June 2020** | 8,592 | 212,502 | 52,942 | 34,143 | 308,179 |
| **Balance at 1 January 2019** | 7,906 | 185,321 | 52,942 | 206,118 | 452,287 |
| **Total comprehensive income for the period ended 30 June 2019** | | | | | |
| Profit for the period | – | – | – | 4,439 | 4,439 |
| **Transactions with the shareholders** | | | | | |
| Placing of new shares (Note 13) | 686 | 27,181 | – | – | 27,867 |
| **Balance at 30 June 2019** | 8,592 | 212,502 | 52,942 | 210,557 | 484,593 |

| | Note | Six months ended 30 June 2020 RMB'000 Unaudited | 2019 RMB'000 Unaudited |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash used in operations | | (5,892) | (6,840) |
| Interest received | | 5 | 4 |
| Interest paid | | (951) | (2,373) |
| Income taxes paid | | (8) | (1,005) |
| **Net cash flows used in operating activities** | | (6,846) | (10,214) |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | 10, 15 | (13,880) | (34) |
| Payments of land use rights | 11 | – | (610) |
| Proceeds from disposal of property, plant and equipment | | 240 | 44 |
| Assets-related government grants received | | – | 1,910 |
| **Net cash (used in)/generated from investing activities** | | (13,640) | 1,310 |
| **Cash flows from financing activities** | | | |
| Net proceeds from issuance of ordinary shares | 14 | – | 27,868 |
| Proceeds from borrowings | 15 | 23,900 | 35,360 |
| Repayments of borrowings | 15 | (23,999) | (45,252) |
| Principal elements of lease payments | | (277) | (271) |
| **Net cash (used in)/generated from financing activities** | | (376) | 17,705 |
| **Net (decrease)/increase in cash and cash equivalents** | | (20,862) | 8,801 |
| Cash and cash equivalents at beginning of the period | | 51,007 | 48,298 |
| Effects of exchange rate changes on cash and cash equivalents | | – | (319) |
| **Cash and cash equivalents at end of the period** | | 30,145 | 57,110 |

## 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 wooden products and provision of agricultural and other ancillary services.

The Company is a limited liability company incorporated in Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. box 2681, Grand Cayman KY1-1111, Cayman Islands.

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

These interim condensed consolidated financial statements are presented in Renminbi ("RMB") unless otherwise stated. These interim condensed consolidated financial statements have been reviewed by the audit committee of the Company and have been approved for issue by the Board on 31 August 2020.

This interim condensed consolidated financial report has not been audited.

### Significant events and transactions

In the first half year of 2020, the Coronavirus Disease 2019 ("COVID-19") had certain impact on the Group's business and economics activities in the local and oversea markets. The sale price of plywood products declined due to the decreasing demand of wood products industry, which lead to the Group's gross profit margin decreased.

## 2. BASIS OF PREPARATION

These interim condensed consolidated financial statements for the half-year reporting period ended 30 June 2020 have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting". The interim condensed consolidated financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this interim condensed consolidated financial report is to be read in conjunction with the annual report for the year ended 31 December 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

## 3. ACCOUNTING POLICIES

The accounting policies applied in these interim condensed consolidated financial statements are consistent with those of the annual financial statements for the year ended 31 December 2019 except for the adoption of new and amended standards as set out below.

### (a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group did not had to change its accounting policies and make retrospective adjustments as a result of adopting these standards.

## 3. ACCOUNTING POLICIES — *continued*

### (a) New and amended standards adopted by the Group — *continued*

| | | Effective for annual periods beginning on or after |
|---|---|---|
| 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 |
| Amendments to IFRS 9, IAS 39 and IFRS 7 | Interest Rate Benchmark Reform | 1 January 2020 |
| Amendments to IFRS16 | Covid-19-related Rent Concessions | 1 June 2020 |

### (b) New standards and interpretations not yet adopted

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2020 and have not been early adopted by the Group:

| | | Effective for annual periods beginning on or after |
|---|---|---|
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current | 1 January 2022 |
| Amendments to IAS 16 | Property, Plant and Equipment: Proceeds before intended use | 1 January 2022 |
| Amendments to IAS 37 | Onerous Contracts — Cost of Fulfilling a Contract | 1 January 2022 |
| Amendments to IFRS 3 | Reference to the Conceptual Framework | 1 January 2022 |
| IFRS 17 | Insurance contracts | 1 January 2023 |
| Amendments to IFRS 10 and IAS 28 | Sale or contribution of assets between an investor and its associate or joint venture | To be determined |
| Annual Improvements to IFRS Standards 2018–2020 | | 1 January 2022 |

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations.

## 4. ESTIMATES

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

In preparing this interim condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019.

## 5. FINANCIAL RISK MANAGEMENT

### 5.1 Financial risk factors

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

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2019.

There have been no changes in the risk management department since 2019 year end or in any risk management policies.

### 5.2 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.

#### *(i) Risk management*

Credit risk is managed on a group basis. 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.

## 5. FINANCIAL RISK MANAGEMENT — *continued*

### 5.2 Credit Risk — *continued*

#### *(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 30 June 2020 or 31 December 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.

## 5. FINANCIAL RISK MANAGEMENT — *continued*

### 5.2 Credit Risk — *continued*

#### *(ii) Impairment of financial assets — continued*

*Trade receivables — continued*

On that basis, the loss allowance as at 30 June 2020 and 31 December 2019 was determined as follows for trade receivables:

| | 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 |
|---|---|---|---|---|---|
| **30 June 2020** | | | | | |
| Expected loss rate | **2.32%** | **4.44%** | **10.95%** | **56.63%** | **18.35%** |
| Gross carrying amount | **40,824** | **59,395** | **27,079** | **43,907** | **171,205** |
| Total loss allowance | **947** | **2,639** | **2,964** | **24,866** | **31,416** |

| | 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 |
|---|---|---|---|---|---|
| 31 December 2019 | | | | | |
| 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 |

## 5. FINANCIAL RISK MANAGEMENT — *continued*

### 5.2 Credit Risk — *continued*

#### *(ii) Impairment of financial assets — continued*

*Trade receivables — continued*

The loss allowances for trade receivables as at 30 June 2020 and 31 December 2019 reconcile to the opening loss allowances as follows:

| | Trade receivables RMB'000 |
|---|---|
| **Opening loss allowance at 1 January 2019** | 7,822 |
| Provision for impairment loss allowances | 512 |
| **Closing loss allowance at 31 December 2019** | 8,334 |
| Provision for impairment loss allowances | 23,626 |
| Reversal of receivables impairment during the year | (544) |
| **Closing loss allowance at 30 June 2020** | **31,416** |

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).

The management consider that the Group should have sufficient time within a timespan of two years to attempt all methods of recovery including but not limited discussion with debtors relating to potential repayment plans or any partial settlements. The management is of the view that two years is an appropriate period before provisions of impairments are made to trade receivables of the Group.

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

## 5. FINANCIAL RISK MANAGEMENT — *continued*

### 5.2 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 six months ended 30 June 2020 and 2019, the following gains or losses were recognised in "(Provision for)/reversal of net impairment losses on financial assets" in the consolidated statement of comprehensive income in relation to impaired financial assets.

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Provision for impairment losses | | |
| — Provision for/(reversal of) loss allowance for trade receivables | **23,082** | (2,216) |

### 5.3 Liquidity Risk

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.

## 5. FINANCIAL RISK MANAGEMENT — *continued*

### 5.3 Liquidity Risk — *continued*

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 30 June 2020** | | | | | |
| Borrowings | 37,464 | 3,654 | 20,096 | – | 61,214 |
| Interest payables for borrowings (i) | 3,245 | 2,475 | 3,284 | – | 9,004 |
| Trade and other payables | 8,015 | – | – | – | 8,015 |
| | 48,724 | 6,129 | 23,380 | – | 78,233 |
| At 31 December 2019 | | | | | |
| Borrowings | 37,414 | – | 14,332 | 8,958 | 60,704 |
| Interest payables for borrowings (i) | 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 |

(i) The interests on borrowings are calculated based on bank borrowings and corporate bonds held as at 30 June 2020 and 31 December 2019 without taking into account of future issues.

### 5.4 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).

## 5. FINANCIAL RISK MANAGEMENT — *continued*

### 5.4 Fair value estimation — *continued*

As at 30 June 2020, 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.

## 6. REVENUE AND SEGMENT INFORMATION

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

i. Manufacturing and sales of plywood; 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 (loss)/profit before income tax without allocation of finance costs, which is consistent with that in the consolidated financial statements.

Approximately 23.7% of revenue were derived from two single external customers that exceeded 10% of the total revenue of the Group for the six months ended 30 June 2020 and no revenue was derived from two single external customers that exceeded 10% of the total revenue of the Group for the six months ended 30 June 2019.

Segment assets consist of land use rights, property, plant and equipment, deferred tax assets, right-of-use 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, lease liabilities, 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.

## 6. REVENUE AND SEGMENT INFORMATION — *continued*

The segment information for the six months ended 30 June 2020 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 | 80,118 | 10,735 | (7,783) | – | 83,070 |
| Segment results | (109,505) | (20,872) | 1,069 | (1,872) | (131,180) |
| Finance costs – net | | | | | (2,936) |
| Loss before income tax | | | | | (134,116) |
| Income tax expense (Note 8) | | | | | (37,722) |
| Loss for the period | | | | | (96,394) |
| **Other Segment items** | | | | | |
| Depreciation of property, plant and equipment (Note 10) | 1,805 | 572 | – | – | 2,377 |
| Amortisation of land use rights (Note 11) | 195 | 110 | – | – | 305 |
| Gain on disposal of property, plant and equipment | 329 | (30) | – | – | 299 |
| Impairment charges for property, plant and equipment (Note 10) | 25,748 | 2,419 | – | – | 28,167 |
| Additions to non-current assets | 3,280 | 10,600 | – | – | 13,880 |

The segment assets and liabilities at 30 June 2020 are as follows:

| | Plywood RMB'000 | Biomass wood pellets RMB'000 | Unallocated RMB'000 | Group RMB'000 |
|---|---|---|---|---|
| Total assets | 340,426 | 70,388 | 61 | 410,875 |
| Total liabilities | 55,262 | 12,041 | 35,393 | 102,696 |

## 6. REVENUE AND SEGMENT INFORMATION — *continued*

The segment information for the six months ended 30 June 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 | 147,558 | 16,266 | (8,736) | – | 155,088 |
| Segment results | 8,849 | 2,421 | 149 | (2,036) | 9,383 |
| Finance costs – net | | | | | (2,451) |
| Profit before income tax | | | | | 6,932 |
| Income tax expense (Note 8) | | | | | (2,493) |
| Profit for the period | | | | | 4,439 |
| **Other Segment items** | | | | | |
| Depreciation of property, plant and equipment (Note 10) | 2,090 | 958 | – | – | 3,048 |
| Amortisation of land use rights (Note 11) | 194 | 110 | – | – | 304 |
| Gain on disposal of property, plant and equipment | 28 | – | – | – | 28 |
| Additions to non-current assets | 644 | – | – | – | 644 |

The segment assets and liabilities at 30 June 2019 are as follows:

| | Plywood RMB'000 | Biomass wood pellets RMB'000 | Unallocated RMB'000 | Group RMB'000 |
|---|---|---|---|---|
| Total assets | 471,840 | 95,635 | 2,430 | 569,905 |
| Total liabilities | 45,459 | 11,222 | 28,631 | 85,312 |

## 7. OPERATING (LOSS)/PROFIT

An analysis of the amounts presented as operating items in the financial information is given below.

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Changes in inventories of finished goods and work-in-progress | **28,272** | 35,400 |
| Raw materials and consumables used | **86,999** | 101,026 |
| Employee benefit expenses | **6,368** | 8,818 |
| Provision for inventory write-down (Note 12) | **33,717** | – |
| Provision for impairment charges for property, plant and equipment (Note 10) | **28,168** | – |
| Depreciation and amortisation (Note 10) | **2,377** | 3,048 |
| Depreciation of right-of-use assets (Note 11) | **561** | 555 |
| Provision for/(Reversal of) net impairment losses on financial assets (Note 13) | **22,607** | (2,216) |
| Refund of value added tax ("VAT") (Note) | **(299)** | (796) |

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.

## 8. INCOME TAX (CREDIT)/EXPENSE

PRC profits tax is calculated at the rate of 25% (30 June 2019: 25%) on the estimated assessable profit for the period. As a result of there being no assessable profit, no PRC profits tax has been provided for the current period.

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Current income tax | **–** | 1,446 |
| Deferred income tax (Note 17) | **(37,722)** | 1,047 |
| | **(37,722)** | 2,493 |

### (i) Cayman Islands profits tax

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

### (ii) British Virgin Islands profits tax

The Company's subsidiary in the British Virgin Islands ("BVI") is exempted from BVI income tax, as it is incorporated under the International Business Companies Act of the BVI.

## 8. INCOME TAX (CREDIT)/EXPENSE — *continued*

### (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 profits tax rate is 16.5% (six months ended 30 June 2019: 16.5%) for the period.

### (iv) PRC corporate income tax ("CIT")

CIT is provided on the assessable profit of entities within the Group incorporated in the PRC. The applicable CIT rate is 25% (six months ended 30 June 2019: 25%) for the period.

### (v) PRC withholding income tax

According to the new CIT Law, a 10% withholding tax will be levied on the immediate holding companies established out of the PRC, in respect of earnings generated after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding companies. During the period, no withholding tax has been provided as the directors have confirmed that the Group does not expect the PRC subsidiaries to distribute the retained earnings as at 30 June 2020 in the foreseeable future.

## 9. (LOSSES)/EARNINGS PER SHARE

### (a) Basic

Basic (losses)/earnings per share for the six months ended 30 June 2020 and 2019 are calculated by dividing the (loss)/profit attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

| | Six months ended 30 June | |
|---|---|---|
| | **2020** | 2019 |
| (Loss)/profit attributable to the shareholders of the Company | **(96,394)** | 4,439 |
| Weighted average number of ordinary shares in issue (thousands) | **974,400** | 902,433 |
| Basic (losses)/earnings per share (RMB cents per share) | **(9.89)** | 0.49 |

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

During the six months ended 30 June 2020 and 2019, the diluted (losses)/earnings per share is equal to basic (losses)/earnings per share, as there were no instruments outstanding that could have a dilutive effect on the Company's ordinary shares.

## 10. PROPERTY, PLANT AND EQUIPMENT

| | Property, plant and equipment RMB'000 |
|---|---|
| **Six months ended 30 June 2020** | |
| **Opening net book amount at 1 January 2020** | **119,675** |
| Additions | **10,900** |
| Disposals | **(549)** |
| Provision for impairment loss (Note) | **(28,168)** |
| Depreciation and amortisation | **(2,377)** |
| **Closing net book amount at 30 June 2020** | **99,482** |

| | Property, plant and equipment RMB'000 |
|---|---|
| **Six months ended 30 June 2019** | |
| **Opening net book amount at 1 January 2019** | 161,089 |
| Additions | 34 |
| Disposals | (16) |
| Depreciation and amortisation | (3,048) |
| **Closing net book amount at 30 June 2019** | 158,059 |

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

As at 30 June 2020, plants of the Group with a total net book value of RMB40,455,000 (31 December 2019: RMB41,235,000) were pledged to secure short-term borrowings as disclosed in Note 14. The borrowings of RMB19,700,00 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 19(b)).

## 10. PROPERTY, PLANT AND EQUIPMENT — *continued*

Note:

As a result of the plywood segment and biomass wood pellets segment, being the cash generating units (the "CGUs") of the Group, incurred losses during the year ended 31 December 2019 and the six months ended 30 June 2020 and the utilization of the production capacity of both segments was very low, there were indicators of the risk that the carrying values of property, plant and equipment attributable to these segments as at 30 June 2020 may be impaired as was the case as at 31 December 2019. The recoverable amounts of the CGUs have been determined based on the higher of fair value based on, inter alia, reference to fair value of comparable properties within the vicity of the Group's properties 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. Management performed an assessment of the recoverable amounts of assets of the two CGUs and concluded that impairment losses of approximately RMB28.2 million was required.

## 11. LEASES

This note provides information for leases where the Group is a lessee.

### (i) Amounts recognised in the interim condensed consolidated balance sheet

The interim condensed consolidated balance sheet shows the following amounts relating to leases:

| | As at | |
|---|---|---|
| | **30 June 2020 RMB'000** | 31 December 2019 RMB'000 |
| **Right-of-use assets** | | |
| Land use rights (a) | **26,533** | 26,838 |
| Buildings | **—** | 432 |
| | **26,533** | 27,270 |
| **Lease liabilities** | | |
| Current | **—** | 472 |
| Non-current | **—** | — |
| | **—** | 472 |

## 11. LEASES — *continued*

### (i) Amounts recognised in the interim condensed consolidated balance sheet — *continued*

#### *(a) Land-use rights*

| | Leasehold land-use rights RMB'000 |
|---|---|
| **Six months ended 30 June 2019** | |
| **Opening net book amount at 1 January 2019** | 24,549 |
| Additions | 2,899 |
| Depreciation and amortisation | (304) |
| **Closing net book amount at 30 June 2019** | 27,144 |
| **Six months ended 30 June 2020** | |
| **Opening net book amount at 1 January 2020** | **26,838** |
| Depreciation and amortisation | **(305)** |
| **Closing net book amount at 30 June 2020** | **26,533** |

As at 30 June 2020, land use rights of the Group with a total net book value of RMB19,956,066 (2019: RMB20,182,000) were pledged to secure short-term borrowings as disclosed in Note 14.

## 12. INVENTORIES

Inventories include raw materials, work in progress and finished goods 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. In arriving at the provision amount for inventory write-down of approximately RMB33.7 million, the Management assessed the net realisable value of its inventories based on the estimated selling price in the ordinary course of business, less estimated completion costs and other selling expenses. These estimates are based on the prevailing market condition and the comparable prices of similar products.

## 13. TRADE AND OTHER RECEIVABLES

| | As at 30 June 2020 RMB'000 | As at 31 December 2019 RMB'000 |
|---|---|---|
| Trade receivables (a) | **171,205** | 182,828 |
| Less: provision for impairment | **(31,416)** | (8,334) |
| Trade receivables — net | **139,789** | 174,494 |
| Notes receivables | **250** | — |
| Prepayments | | |
| — Prepayments for raw materials | **17,015** | 26,846 |
| — Prepayments for land use rights | **5,331** | 2,351 |
| Other receivables | **20,746** | 21,881 |
| Less: allowance for impairment of other receivables | **(10,320)** | (10,795) |
| | **172,811** | 214,777 |
| Less: Prepayment non-current | **(5,331)** | (2,351) |
| | **167,480** | 212,426 |

(a) As at 30 June 2020 and 31 December 2019 the aging analysis of the trade receivables based on invoice date were as follows:

| | As at 30 June 2020 RMB'000 | As at 31 December 2019 RMB'000 |
|---|---|---|
| Up to 3 months | **40,824** | 77,568 |
| 4 to 6 months | **20,338** | 39,707 |
| 7 to 12 months | **57,558** | 36,491 |
| Over 1 year | **52,485** | 29,062 |
| | **171,205** | 182,828 |

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.

## 13. TRADE AND OTHER RECEIVABLES — *Continued*

The Group has maintained the same risk management policies as disclosed in the Group's annual report for the year ended 31 December 2019 for its 2020 Interim Results. Accordingly, the management continued to utilize the expected credit loss model in its assessment for the impairment amount of its financial assets for the six months ended 30 June 2020. Trade receivables are written off only when the management is of the view that there is no reasonable expectation of recovery. 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.

Based on the results of its expected credit loss analysis, the management concluded that a provision for impairment of financial assets as at 30 June 2020 of approximately RMB31.4 million (31 December 2019: RMB8.3 million) is required.

## 14. SHARE CAPITAL AND SHARE PREMIUM

| | | Amount | | |
|---|---|---|---|---|
| | Number of ordinary shares<br>'000 | Share capital<br>RMB'000 | Share premium<br>RMB'000 | Total<br>RMB'000 |
| **At 1 January 2020 And 30 June 2020** | **974,400** | **8,592** | **212,503** | **221,094** |
| **At 1 January 2019** | 896,400 | 7,906 | 185,320 | 193,226 |
| Placing of new shares (Note) | 78,000 | 686 | 27,182 | 27,868 |
| **And 30 June 2019** | 974,400 | 8,592 | 212,502 | 221,094 |

Note: On 17 June 2019, 78,000,000 shares of the Company were issued at a price of HK$0.41 with a par value of HK$0.01 each. The gross proceeds raised was HK$31,980,000 (approximately RMB28,115,000). The transaction costs of RMB247,000 were debited to the share premium account.

## 15. BORROWINGS

| | As at 30 June 2020 RMB'000 | As at 31 December 2019 RMB'000 |
|---|---|---|
| **Non-current** | | |
| Bonds (a) | **23,253** | 22,736 |
| **Current** | | |
| Bonds within one year (a) | **7,705** | 7,303 |
| Short-term bank borrowings — secured | **29,700** | 29,800 |
| | **37,405** | 37,103 |
| | **60,658** | 59,839 |

### (a) Bonds

The Company has issued both short-term and long-term bonds with fixed interest rates ranging from 6% to 8% per annum. The tenures of the bonds are between 1 to 7.5 years. The fair values of the bonds approximated their carrying amount as at 30 June 2020.

Bonds with total principal amount of HK$5,500,000 (equivalent to approximately RMB5,024,000) were mature and remained unsettled as at 30 June 2020. The Company received a writ of summons with a statement of claim (the "Writ") on 26 June 2020 against the Company in relation to a liquidated sum of certain matured bonds totaling HK$2,500,000. The Company has engaged a legal advisor to handle the claim under the Writ and is also in the process of arranging funds for settlement to the holders of those matured bonds.

The carrying amount and fair value of non-current borrowings are as follows:

| | Carrying amount As at | | Fair value As at | |
|---|---|---|---|---|
| | **30 June 2020 RMB'000** | 31 December 2019 RMB'000 | **30 June 2020 RMB'000** | 31 December 2019 RMB'000 |
| Bonds | **23,253** | 22,736 | **23,253** | 22,736 |

## 15. BORROWINGS — *continued*

### (a) Bonds — *continued*

Movements in borrowings were analysed as follows:

| | RMB'000 |
|---|---|
| **Six months ended 30 June 2020** | |
| Opening amount as at 1 January 2020 | **59,839** |
| Proceeds from bank borrowings | **23,900** |
| Repayments of bank borrowings | **(23,999)** |
| Amortisation of bonds transaction cost | **327** |
| Exchange differences | **591** |
| **Closing amount as at 30 June 2020** | **60,658** |
| **Six months ended 30 June 2019** | |
| Opening amount as at 1 January 2019 | 69,226 |
| Proceeds from bank borrowings | 32,900 |
| Proceeds from bonds | 2,460 |
| Repayments of bank borrowings | (41,000) |
| Repayments of bonds | (4,252) |
| Amortisation of bonds transaction cost | 193 |
| Exchange differences | (128) |
| **Closing amount as at 30 June 2019** | 59,399 |

As at 30 June 2020, land use rights of the Group with a total net book value of RMB19,956,000 (31 December 2019 RMB20,182,000), and plants of the Group with a total net book value of RMB35,379,000 (31 December 2019 RMB41,235,000) were pledged to secure short-term borrowings. The borrowings of RMB19,700,000 were guaranteed by Mr. Ke Mingcai, former executive Director and Chairman of the Company, 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 19(b)).

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

For the six months ended 30 June 2020, the weighted average effective interest rate on borrowings from banks was 6.44% (six months ended 30 June 2019: 7.0%).

## 16. TRADE, OTHER PAYABLES AND ACCRUALS

| | As at | |
|---|---|---|
| | **30 June 2020 RMB'000** | 31 December 2019 RMB'000 |
| Trade payables (a) | **1,883** | 834 |
| Employee benefit payables | **5,728** | 5,185 |
| Advances from customers | **2,367** | 926 |
| Other taxes payable | **16,453** | 15,804 |
| Interest payable | **1,975** | 931 |
| Others | **6,133** | 6,608 |
| | **34,539** | 30,288 |

(a) As at 30 June 2020 and 31 December 2019, the aging analysis of the trade payables based on invoice date was as follows:

| | As at | |
|---|---|---|
| | **30 June 2020 RMB'000** | 31 December 2019 RMB'000 |
| Within 3 months | **1,883** | 834 |

## 17. DEFERRED INCOME TAX

| | Six months ended 30 June | |
|---|---|---|
| | **2020 RMB'000** | 2019 RMB'000 |
| At beginning of the period | **7,280** | 1,201 |
| Income statement charge (Note 8) | **37,722** | 6,079 |
| At end of the period | **45,002** | 7,280 |

## 18. DIVIDENDS

For the six months ended 30 June 2020 and 2019, the Board didn't declare any dividend.

## 19. CONTINGENT LIABILITIES

As at 30 June 2020 and 31 December 2019, the Group had no material contingent liabilities.

## 20. RELATED PARTY TRANSACTIONS AND BALANCES

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 (Retired on 22 May 2020) | Shareholder, former executive Director and Chairman of the Company |
| Mr. Zhang Ayang | Shareholder and executive Director of the Company |

### (a) Key management compensation

| | **Six months ended 30 June** | |
|---|---|---|
| | **2020** | 2019 |
| | **RMB'000** | RMB'000 |
| Salaries and bonus | **1,240** | 1,770 |
| Pension, housing fund, medical insurance and other | **46** | 59 |
| | **1,286** | 1,829 |

Key management are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and executive officers.

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

As at 30 June 2020, the Group's short-term borrowings of RMB19,700,000 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. 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 13).

## 21. EVENTS OCCURRING AFTER THE REPORTING PERIOD

There are no other material subsequent events undertaken by the Company or by the Group after 30 June 2020.