Da Sen Holdings Group Limited
大森控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1580)

ANNOUNCEMENT OF RESULT FOR THE YEAR ENDED 31 DECEMBER 2020

The Board hereby announces the results of the Group for the year ended 31 December 2020 together with the comparative figures extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2019 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	**2020**	2019 (Restated)
		RMB'000	*RMB'000*
Continuing operations			
Revenue	*3*	**175,281**	305,503
Cost of sales	*6*	**(289,083)**	(329,755)
Gross loss		**(113,802)**	(24,252)
Selling and distribution expenses	*6*	**(845)**	(1,029)
Administrative expenses	*6*	**(14,584)**	(21,012)
Net impairment losses on financial assets		**(61,864)**	(11,404)
Other income	*4*	**2,799**	2,710
Other losses – net	*5*	**(14,532)**	(12,138)
Operating loss from continuing operations		**(202,828)**	(67,125)
Finance income	*7*	**13**	7
Finance costs	*7*	**(2,213)**	(4,994)
Finance costs – net	*7*	**(2,200)**	(4,987)

	Notes	**2020**	2019 (Restated)
		RMB'000	*RMB'000*
Loss before income tax from continuing operations		**(205,028)**	(72,112)
Income tax (credit)/expense	*8*	**(6,246)**	4,539
Loss for the year from continuing operations		**(211,274)**	(67,573)
Discontinued operation			
Loss for the year from discontinued operation	*9*	**(24,028)**	(8,008)
Total loss and comprehensive loss for the year and attributable to the shareholders of the Company		**(235,302)**	(75,581)
Losses per share for loss from continuing operations attributable to the shareholders of the Company during the year			
– Basic and diluted (expressed in RMB cents per share)	*10*	**(21.68)**	(7.20)
Losses per share for total loss attributable to the shareholders of the Company during the year			
– Basic and diluted (expressed in RMB cents per share)	*10*	**(24.15)**	(8.05)

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2020

	Notes	**2020** **RMB'000**	2019 *RMB'000*
ASSETS			
Non-current assets			
Right-of-use assets		**10,579**	27,270
Property, plant and equipment	*11*	**54,813**	119,675
Investment properties	*12*	**45,878**	–
Prepayments		–	2,351
Deferred income tax assets		–	7,280
Total non-current assets		**111,270**	156,576
Current assets			
Inventories	*13*	**47,228**	82,682
Trade and other receivables	*14*	**111,354**	212,426
Cash and cash equivalents		**5,763**	51,007
Total current assets		**164,345**	346,115
Total assets		**275,615**	502,691
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	*15*	**8,592**	8,592
Share premium	*15*	**212,502**	212,502
Other reserves	*16*	**52,942**	52,942
(Accumulated losses)/retained earnings		**(104,765)**	130,537
Total equity		**169,271**	404,573

	Notes	2020	2019
		RMB'000	*RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings	*17*	–	22,736
Deferred income		**317**	342
Total non-current liabilities		**317**	23,078
Current liabilities			
Trade and other payables	*18*	**40,922**	30,288
Current income tax liabilities		**7,168**	7,177
Borrowings	*17*	**57,937**	37,103
Lease liabilities		–	472
Total current liabilities		**106,027**	75,040
Total liabilities		**106,344**	98,118
Total equity and liabilities		**275,615**	502,691

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Da Sen Holdings Group Limited ("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's shares have been listed on The Stock Exchange of Hong Kong Limited since 19 December 2016.

The Company and its subsidiaries (together "the Group") were previously 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"). In view of the significant drop in market demand for biomass wood pellets during the year 31 December 2019, the Group had gradually scale down the productions of biomass wood pellets and in the second half of 2020 made the decision to cease the operation of the business. Accordingly, the cessation of biomass wood pellets operation is presented as a discontinued operation in the consolidated financial statements of the Group with the comparatives for the corresponding year of 2019 be restated to conform with the current year's presentation.

The Group changed the factory site for the biomass wood pellets operation to a market for trading of agricultural products and leased the market to a third party. The Group also lease out other land and factory buildings of the PRC subsidiaries which are surplus to needs in order to generate a stable and recurring rental income. Accordingly, leasing activities become a new business segment of the Group.

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 17 May 2021.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(i) Basis of preparation

Compliance with International Financial Reporting Standards and Hong Kong Companies Ordinance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance ("HKCO").

Going concern basis

The Group incurred a net loss of RMB235,302,000 and reported a net operating cash outflow of RMB29,473,000 during the year ended 31 December 2020. As at 31 December 2020, the Group's equity attributable to shareholders of the Company amounted to RMB169,271,000. Due to the increase in people cost and the pressure of environmental protection from the PRC local government, there was a sharp decline in the business of production and sales of biomass wood pellets in 2019 and it became worse in 2020 after the outbreak of COVID-19 pandemic. The Directors of the Company decided to shut down the biomass wood pellets business starting from July 2020.

As at 31 December 2020, the Group's current borrowings amounted to RMB57,937,000 in total, including RMB29,037,000 bonds borrowings in Hong Kong and RMB28,900,000 bank borrowings in the PRC, while the Group's cash and cash equivalents was only RMB5,763,000.

In respect of the bonds borrowings in Hong Kong, during the year ended 31 December 2020, the Company failed to pay the interests of all of the bonds that were due for payment during the year, thereby triggered the default redemption clause of the bond contracts. As a result, all the outstanding bonds borrowings amounting to RMB29,037,000 as at 31 December 2020 became immediately repayable if requested by the bond holder creditors, of which, RMB7,154,000 represented bonds with original maturity dates within one year, while the remaining RMB21,883,000 represented bonds with original maturity dates beyond 31 December 2021 and these were reclassified as current liabilities as at 31 December 2020. In addition, the Company received several writs of summons and a statutory demand from the bond holder creditors in relation to the overdue payments of the bonds' principals and interests. Further details are set out in Note 17(a).

In respect of the bank borrowings in the PRC, the Group failed to repay three borrowings from a bank in the PRC, totalling RMB18,900,000 as at 31 December 2020, when the three bank borrowings were due for repayment in January and February 2021. This had triggered cross default of another bank borrowing from a bank in the PRC, totalling RMB10,000,000 as at 31 December 2020, which were originally due for repayment in June 2021 and will be subject to immediate repayment if requested by the respective bank. Further details are set out in Note 17(a). These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

In view of such circumstances, the Directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. A number of measures have been taken to mitigate the liquidity pressure and to improve the financial position, to refinance its operation and to restructure its debts. These include the followings:

(i) On 30 November 2020, the Company announced a proposed restructuring of the debts ("Proposed Restructuring"), including the bonds borrowings (Note 17(a)) and the interests accrued and other liabilities, in Hong Kong, by way of implementing a creditors schemes ("Creditors Schemes"). Details of the Creditors Schemes and the conditions precedent that shall be fulfilled before the effective of the Creditors Schemes are set out in Note 17(a). The Group has been in active negotiations with the bond holder creditors to seek their support to the Creditors Schemes. As at the date of approval of these consolidated financial statements, none of the conditions precedent to the Creditors Schemes has been completed. On the best estimate of the Directors of the Company, the Creditors Schemes will be completed in Quarter 3 of 2021 and the Proposed Restructuring will be completed by end of 2021;

(ii) On 8 January 2021, the Company announced a proposed open offer of shares of the Company ("Open Offer") to raise fund for the implementation of the Creditors Schemes. The Open Offer is conditional upon the approval of the Creditors Schemes by the creditors (Note 19(b)).

    On 17 May 2021, the Company resolved to modify the Open Offer to an open offer ("New Open Offer") that will not be conditional upon the approval of the Creditors Schemes, subject to regulatory approval, and the size of the open offer will be increased from the previous HK$29 million to HK$54.5 million (equivalent to approximately RMB45.9 million). The issue proceeds will be used for settlement of the payment obligations under the Creditors Schemes, repayment of the bank borrowings in the PRC, and working capital of the Group.

To support the successful completion of the New Open Offer, certain shareholders of the Company, have provided the Company irrevocable undertakings to the subscription of the shares. The New Open Offer is conditional upon the fulfilment of a number of conditions precedent which are set out in Note 19(b). The Directors of the Company expect that the New Open Offer will be completed in June 2021;

(iii) The Group has been in active contact with the respective banks in the PRC regarding the repayment arrangement of the Group's bank borrowings in the PRC subsidiaries. In respect of the three overdue bank borrowings totalling RMB18,900,000 as at 31 December 2020, subsequently in April 2021, verbal agreement has been reached with the bank to extend the repayment period of the three bank borrowings to June 2021 subject to certain partial early repayments. In respect of the other RMB10,000,000 bank borrowings that were in cross-default and originally due for repayment in June 2021, as at the date of approval of these consolidated financial statements, no demand for early repayment has been made by the bank or a waiver has been obtained from the bank;

(iv) The Group has been in discussion with potential buyers to dispose certain land and buildings of its subsidiaries in the PRC so as to raise additional cash: and

(v) The Group will continue its efforts to implement measures to strengthen its working capital position by managing impact from COVID-19 outbreak, improving its sales, expediting collection of outstanding trade and other receivables and sales of inventories, as well as controlling cost and capital expenditures.

The Directors of the Company have reviewed the Group's cash flow projections prepared by management, covering a period of not less than twelve months from 31 December 2020, and are of the view that, taking into account the abovementioned plans and measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2020. Accordingly, the Directors of the Company are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether management of the Company will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing and operating cash flows through the following:

(i) Successfully and timely executing the plan of New Open Offer. The successful completion of New Open Offer would include the obtaining of regulatory approvals at different stages, the necessary and relevant shareholders' approvals as required, compliance with and performance of the irrevocable undertakings by certain shareholders as well as other conditions precedent as set out in Note 19(b);

(ii) Successfully implementing the Proposed Restructuring in relation to reduction of debts of the Group in Hong Kong through the implementation of the Creditors Schemes which is subject to obtaining necessary approval from the bond holder creditors and shareholders, as well as the successful fulfilment of the other conditions precedent of the Creditors Schemes as set out in Note 17(a);

(iii) Successfully negotiating with the bank for the extension for repayments of the overdue bank borrowings, as well as convincing another bank not to demand for immediate repayment of the bank borrowing with cross default, in the PRC;

(iv) Successfully and timely raising additional cash through the potential disposal of certain assets of the Group; and

(v) Successfully implementing the measures to improve sales, control costs, contain capital expenditures as well as to accelerate the collection of trade and other receivables and the disposal of inventories so as to enhance the Group's working capital position.

Should the Group fail to achieve the abovementioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effects of these adjustments have not been reflected in these consolidated financial statements.

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.

(ii) Change in accounting policy and disclosures

A number of new or amended standards became applicable for the current reporting period. The adoption of these new standards and amendments to existing standards does not have any significant impact to the results and financial position of the Group:

Standards and amendments	**Key requirements**	**Effective for annual periods beginning on or after**
IAS 1 and IAS 8 (Amendments)	Definition of Material	1 January 2020
IFRS 3 (Amendments)	Definition of a Business	1 January 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
IFRS 9, IAS 39 and IFRS 7 (Amendments)	Interest Rate Benchmark Reform	1 January 2020
IFRS 16 (Amendments)	Covid-19-related Rent Concessions	1 June 2020

(iii) New standards and interpretations not yet adopted

New standard and amendments to existing standards that have been issued but are not effective and have not been early adopted by the Group:

Standards and amendments	Effective for annual periods beginning on or after
COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)	1 April 2021
IFRS 9 (Amendment), IAS 39 (Amendment), IFRS 7 (Amendment), IFRS 4 (Amendment) and IFRS 16 (Amendment) 'interest rate reform – phase 2'	1 January 2021
IAS 16 (Amendment) 'Property, plant and equipment – proceeds before intended use'	1 January 2022
IAS 37 (Amendment) 'Onerous contracts – cost of fulfilling a contract'	1 January 2022
IFRS 3 (Amendment) 'Reference to the conceptual Framework'	1 January 2022
Annual Improvements to IFRS Standards 2018–2020	1 January 2022
IAS 1 (Amendment) 'Classification of liabilities as current or non-current'	1 January 2023
IFRS 17 'Insurance contracts'	1 January 2023
IAS 1 (Amendment) and IFRS Practice Statement 2 (Amendment) 'Disclosure of Accounting Policies'	1 January 2023
IAS 8 (Amendment) 'Definition of Accounting Estimates'	1 January 2023
IFRS 10 (Amendment) and IAS 28 (Amendment) 'Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group intends to adopt the above new standards and amendments to existing standards when they become effective. The directors of the Company are of the opinion that the adoption of the above new standard and amendments to existing standards would not have a material impact on the Group's financial statements.

3. REVENUE

The revenue of the Group for the year ended 31 December 2020 is set out as follows:

	Years ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Continuing operations		
Sales of plywood	**173,859**	305,503
Rental income	**1,422**	–
	175,281	305,503
Discontinuing operations		
Sales of biomass wood pellets	**2,952**	13,039

4. OTHER INCOME

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Sales of plywood core	**2,774**	2,683
Amortisation of deferred income related to government grants	**25**	27
	2,799	2,710

5. OTHER LOSSES – NET

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Net losses on write off construction in progress *(Note)*	**12,439**	–
Net losses from disposal of property, plant and equipment	**1,628**	607
Impairment loss of inventories due to flooding *(Note 13)*	**–**	8,107
Loss due to forfeiture of a land purchase *(Note 11)*	**–**	3,300
Net foreign exchange losses/(gains)	**67**	(81)
Others	**398**	205
	14,532	12,138

Note: During the year ended 31 December 2020, the management of the Group decided to terminate the construction plan of the expansion of the plywood factory due to the negative impact of COVID-19 on the Group's business and leased the site to a third party to generate recurring rental income. Accordingly, the related construction in progress was converted to meet the requirements of the lessee, and as a result of this, a loss of RMB12,439,000 was incurred.

6. EXPENSES BY NATURE

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Raw materials and consumables used	**214,030**	292,826
Changes in inventories of finished goods and work-in-progress	**23,408**	13,632
Provision for inventory write-down *(Note 13)*	**7,376**	5,970
Employee benefit expenses	**12,993**	17,431
Utilities	**907**	1,451
Amortisation of right-of-use assets	**520**	863
Depreciation of property, plant and equipment *(Note 11)*	**3,545**	4,162
Impairment charges on property, plant and equipment *(Note 11)*	**2,491**	7,512
Depreciation of investment properties *(Note 12)*	**1,384**	–
Impairment charges on investment properties *(Note 12)*	**28,210**	–
Taxes and levies	**1,467**	3,207
Audit fees	**1,920**	1,150
Other expenses	**6,261**	3,592
Total cost of sales, selling and distribution expenses and administrative expenses	**304,512**	351,796

7. FINANCE COSTS – NET

	Years ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Finance income:		
– Interest income on bank deposits	**(13)**	(7)
Finance costs:		
– Interest expense on bank borrowings	**1,618**	1,796
– Interest expense on bonds	**2,428**	2,485
– Net foreign exchange (gains)/losses on financing activities	**(2,203)**	679
– Interest charges paid for lease liabilities	**8**	34
– Others	**362**	–
Subtotal:	**2,213**	4,994
Finance costs – net	**2,200**	4,987

8. INCOME TAX EXPENSE/(CREDIT)

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Current income tax expense	**–**	–
Deferred income tax debit/(credit)	**7,280**	(6,079)
Represented by:		
Total income tax expense/(credit) from continuing operations	**6,246**	(4,539)
Total income tax expense/(credit) from discontinued operation *(Note 9)*	**1,034**	(1,540)
	7,280	(6,079)

(i) 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% (2019: 16.5%) for the year.

(ii) 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% (2019: 25%) for the year.

(iii) 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. No withholding tax has been provided as the Group does not expect Mainland China subsidiaries to distribute the retained earnings as at 31 December 2020 in the foreseeable future.

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the tax rate applicable to loss of the consolidated entities as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Loss before income tax from continuing operations	**(205,028)**	(72,112)
Loss before income tax from a discontinued operation	**(22,994)**	(9,548)
	(228,022)	(81,660)
Tax calculated at PRC CIT 25% (2019: 25%)	**(57,006)**	(20,415)
Tax effects of:		
– Expenses not deductible for tax purpose	**8,019**	3,353
– Unrecognised temporary differences	**20,648**	–
– Income not subject to tax	**–**	(1,005)
– Reversal of deferred income tax assets recognised in the previous years	**7,280**	–
– Unrecognised tax losses (i) (ii)	**28,339**	11,988
Tax charge/(credit)	**7,280**	(6,079)

(i) The Group's entities in the PRC had tax losses of RMB149,284,000 (2019: RMB30,711,000). The expiration dates of those tax losses for which no deferred tax assets have been recognised are as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Year of expiration		
2024	**30,711**	30,711
2025	**118,573**	–
Total	**149,284**	30,711

(ii) The remaining tax losses were incurred by the Company and subsidiaries in Hong Kong that are not likely to generate taxable income in the foreseeable future, which can be carried forward perpetually.

9. DISCONTINUED OPERATION

In the second half year of 2020, the Group decided to cease the biomass wood pellets operation and changed the factory site to a market for trading of agricultural products and leased the market to a third party. Accordingly, the cessation of biomass wood pellets operation is presented as a discontinued operation in the consolidated financial statements of the Group for the year ended 31 December 2020 with the comparatives for the corresponding year of 2019 be restated to conform with the current year's presentation.

(a) The results of the discontinued operation are presented below:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Revenue – sales of biomass wood pellets	**2,952**	13,039
Cost of sales	**(3,783)**	(17,439)
Gross loss from discontinued operation	**(831)**	(4,400)
Selling and distribution expenses	**(17)**	(123)
Administrative expenses	**(3,172)**	(5,639)
Net (provision)/reversal of impairment losses on financial assets	**(18,931)**	97
Other income	**275**	1,456
Other losses-net	**(66)**	(441)
Operating loss from discontinued operation	**(22,742)**	(9,050)
Finance income	**–**	1
Finance costs	**(252)**	(499)
Finance costs – net	**(252)**	(498)
Loss before income tax from discontinued operation	**(22,994)**	(9,548)
Income tax (expense)/credit	**(1,034)**	1,540
Loss for the year from discontinued operation	**(24,028)**	(8,008)

(b) The loss for the year from discontinued operation includes the following:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Raw materials and consumables used	**2,387**	6,813
Changes in inventories of finished goods and work-in-progress	**774**	3,011
Employee benefit expenses	**661**	1,980
Amortisation of right-of-use assets	**110**	244
Depreciation of property, plant and equipment	**573**	1,905
Impairment charges on property, plant and equipment	**–**	6,465
Taxes and levies	**449**	1,771
Utilities	**118**	516
Other expenses	**1,900**	496
Total cost of sales, selling and distribution expenses and administrative expenses	**6,972**	23,201

10. LOSSES PER SHARE

(a) Basic

Basic losses per share for the years ended 31 December 2020 and 2019 are calculated by dividing the loss attributable to the shareholders of the Company by the weighted average number of ordinary shares in issue for the respective years.

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Loss attributable to the shareholders		
– From continuing operations	**(211,274)**	(67,573)
– From discontinued operation	**(24,028)**	(8,008)
	(235,302)	(75,581)
Weighted average number of ordinary shares in issue (thousands)	**974,400**	938,712
Basic losses per share (RMB cents per share)		
– From continuing operations	**(21.68)**	(7.20)
– From discontinued operation	**(2.47)**	(0.85)
	(24.15)	(8.05)

(b) Diluted

Diluted losses per share for the years ended 31 December 2020 and 2019 are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares for the respective years.

During the years ended 31 December 2020 and 2019, the diluted losses per share are equal to basic losses per share, as there were no instruments outstanding that could have a dilutive effect on the Company's ordinary shares.

11. PROPERTY, PLANT AND EQUIPMENT

			2020			
	Plant	**Machinery**	**Furniture fixtures and equipment**	**Vehicles**	**Construction in progress**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At 1 January 2020	**111,153**	**35,539**	**1,146**	**795**	**21,164**	**169,797**
Additions	**92**	–	–	–	–	**92**
Transfer upon completion	**8,725**	–	–	–	**(8,725)**	–
Disposals	**(53)**	**(14,395)**	**(34)**	**(118)**	–	**(14,600)**
Write off (a)	–	–	–	–	**(12,439)**	**(12,439)**
Transfer to investment properties *(Note 12)*	**(53,738)**	–	–	–	–	**(53,738)**
At 31 December 2020	**66,179**	**21,144**	**1,112**	**677**	–	**89,112**
Accumulated depreciation						
At 1 January 2020	**(20,310)**	**(14,239)**	**(997)**	**(599)**	–	**(36,145)**
Charge for the year *(Note 6, 9)*	**(2,740)**	**(1,271)**	**(45)**	**(62)**	–	**(4,118)**
Disposals	**45**	**6,437**	**36**	**105**	–	**6,623**
Transfer to investment properties *(Note 12)*	**9,723**	–	–	–	–	**9,723**
At 31 December 2020	**(13,282)**	**(9,073)**	**(1,006)**	**(556)**	–	**(23,917)**
Provision for impairment loss						
At 1 January 2020	**(6,441)**	**(7,512)**	**(5)**	**(19)**	–	**(13,977)**
Charge for the year *(Note 6)*	**6,045**	**(8,400)**	**(49)**	**(87)**	–	**(2,491)**
Disposals	–	**5,690**	–	–	–	**5,690**
Transfer to investment properties *(Note 12)*	**396**	–	–	–	–	**396**
At 31 December 2020	–	**(10,222)**	**(54)**	**(106)**	–	**(10,382)**
Net book value						
At 31 December 2020	**52,897**	**1,849**	**52**	**15**	–	**54,813**

	2019					
	Plant	Machinery	Furniture fixtures and equipment	Vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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 14(b))*	–	–	–	–	(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 *(Notes 6, 9)*	(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 *(Note 6)*	(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

(a) Write-off of construction in progress

In view of the loss situation of the plywood operation, the Group scaled down the operations of the business in the PRC subsidiaries and wrote-off the new factory workshop under construction so as to vacant the land for leasing out to generate stable and recurring rental income. The net book value of construction in progress that has been written-off amounted to RMB12,439,000 (2019: Nil) which was recorded as a loss in "Other losses — net" in the consolidated financial statements.

(b) During the years ended 31 December 2020 and 2019, the charges to income statements in respect of properties, plant and equipment are as follows:

	Depreciation expenses Year ended 31 December		Impairment charges Year ended 31 December		Write off construction in progress Year ended 31 December	
	2020	2019	**2020**	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Continuing operations						
Cost of sales	**2,750**	3,252	**2,491**	7,512	**–**	–
Administrative expenses	**795**	910	**–**	–	**–**	–
Other losses	**–**	–	**–**	–	**12,439**	–
	3,545	4,162	**2,491**	7,512	**12,439**	–
Discontinued operation						
Cost of sales	**–**	661	**–**	6,465	**–**	–
Administrative expenses	**573**	1,244	**–**	–	**–**	–
	573	1,905	**–**	6,465	**–**	–
	4,118	6,067	**2,491**	13,977	**12,439**	–

(c) As at 31 December 2020, plants of the Group with a total net book value of RMB17,648,000 (2019: RMB41,235,000), were pledged as security for short-term bank borrowings of the Group as disclosed in (Note 17).

(d) As at 31 December 2020, plants of the Group with a total net book value of RMB12,855,000 (2019: RMB16,501,000) were without real estate titles and they are under the process of getting the real estate certificates.

12. INVESTMENT PROPERTIES

	2020		
	Plant	**Land use rights**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Cost			
At 1 January 2020	–	–	–
Transfer from right-of-use assets	–	**17,746**	**17,746**
Transfer from property, plant and equipment *(Note 11)*	**53,738**	–	**53,738**
Additions	**15,968**	–	**15,968**
At 31 December 2020	**69,706**	**17,746**	**87,452**
Accumulated depreciation			
At 1 January 2020	–	–	–
Transfer from right-of-use assets	–	**(1,861)**	**(1,861)**
Transfer from property, plant and equipment *(Note 11)*	**(9,723)**	–	**(9,723)**
Charge for the year *(Note 6)*	**(1,147)**	**(237)**	**(1,384)**
At 31 December 2020	**(10,870)**	**(2,098)**	**(12,968)**
Provision for impairment loss			
At 1 January 2020	–	–	–
Transfer from property, plant and equipment *(Note 11)*	**(396)**	–	**(396)**
Charge for the year *(Note 6)*	**(28,210)**	–	**(28,210)**
At 31 December 2020	**(28,606)**	–	**(28,606)**
Net book value			
At 31 December 2020	**30,230**	**15,648**	**45,878**

As mentioned in Note 1 above, on 1 July 2020, the Group ceased the operation of manufacturing and sale of biomass wood pellets and charged the factory site to a market for trading of agricultural products and leased the market to a third party. The lease term is 20 years from July 2020. In addition, during the year ended 31 December 2020, the Group transformed a portion of another factory site for leasing and entered into other two leases with third parties for factory land and buildings in Shandong for lease periods of 6 years from April 2020 and 20 years from January 2020. Accordingly, the book value of the related land and buildings were transferred from right-of-use assets and property, plant and equipment (Note 11) to investment properties during the year ended 31 December 2020.

These factory sites are located at Dasen Industrial Park, Chengwu County Development Zone, Heze, Shandong Province, PRC and Meisen Industrial Park, Sunsi Town Chengwu County, Heze, Shandong Province, PRC, respectively.

The Group's investment properties were stated at historical cost less subsequent accumulated depreciation and any accumulated impairment losses at the end of each reporting period.

The fair value of the Group's investment properties as at 31 December 2020 were determined to be approximately RMB47,608,000 by the directors of the Company with reference to valuations performed by Shandong Tongcheng Real Estate Valuation and Consulting Co., Limited (山東同誠房地產評估諮詢有限公司), an independent valuer on the investment properties as at 31 December 2020. The valuer has appropriate qualifications and experience in the valuation of properties in the relevant locations. An impairment charge of RMB28,210,000 was recognised in "cost of sales" in the consolidated statement of comprehensive income for the year ended 31 December 2020.

The valuations were based on market approach. The fair value estimation of the investment property is categorised in level 3 hierarchy. As at 31 December 2020, the key assumptions adopted in the valuation that support the determination of fair value were in the following ranges for the Group's portfolio of investment properties:

Description	**Fair value at 31 Dec 2020** *(RMB'000)*	**Valuation technique**	**Unobservable inputs**	**Range of unobservable inputs**	**Relationship of unobservable inputs to fair value**
Investment properties	**47,608**	Comparison approach	Comparable's unit selling price	RMB1,370–RMB1,480 per square meter	The higher the unit selling price, the higher the fair value

Rental income and depreciation expenses relating to investment properties were included in the consolidated statement of comprehensive income as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Rental income	**1,422**	–
Cost of sales – depreciation	**1,384**	–

As at 31 December 2020 and 2019, investment properties of the Group with a total net book value of and RMB33,099,000 (2019: Nil) were pledged to secure short-term bank borrowings as disclosed in Note 17, respectively.

13. INVENTORIES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Raw materials	**26,036**	25,764
Work-in-progress	**19,107**	30,301
Finished goods	**15,431**	32,587
	60,574	88,652
Provision	**(13,346)**	(5,970)
	47,228	82,682

During the year ended 31 December 2020, the cost of inventories recognised in cost of sales and administrative expenses were RMB232,347,000 and Nil (2019: RMB304,069,000 and RMB12,213,000), respectively.

In June 2019, the Group's subsidiary's warehouses in Heze town, Chengwu County were flooded due to the continuous rainstorm in Chengwu County, Heze City, Shandong Province caused by a strong typhoon. The inventories with book value of RMB9,125,000 were damaged and sold as scrap and incurred a loss of RMB8,107,000 (Note 5).

14. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Trade receivables (a)	**170,825**	182,828
Less: Provision for impairment	**(81,953)**	(8,334)
Trade receivables – net	**88,872**	174,494
Prepayments		
– Prepayments for raw materials	**14,195**	26,846
– Prepayments for property, plant and equipment	**–**	2,351
Other receivables (b)	**26,258**	21,881
Less: allowance for impairment of other receivables	**(17,971)**	(10,795)
	111,354	214,777
Less: Prepayments – non-current portion	**–**	(2,351)
	111,354	212,426

(a) Trade receivables

As at 31 December 2020 and 2019 the aging analysis of the trade receivables based on invoice date was as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Up to 3 months	**41,744**	77,568
4 to 6 months	**19,146**	39,707
7 to 12 months	**31,517**	36,491
Over 1 year	**78,418**	29,062
	170,825	182,828

The Group has a large number of customers, mainly in Fujian Province, Guangdong Province and Zhejiang Province. There is concentration of credit risk with respect to trade receivables. Due to the impact of COVID-19, the Group's downstream customers have difficulties in their operations. As a result, the Group has difficulties in collecting money from these downstream customers and management analyzes all receivables and makes provision for bad debts.

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.

(b) Other receivables

Included in other receivables is an amount due from the local government in Goucunji town, Chengwu County, Shandong Province, the PRC of RMB20,639,000 (2019: RMB21,589,000), against which a provision for impairment of RMB10,795,000 (2019: RMB10,795,000) was made, resulted in a net receivables amounting to RMB9,844,000 (2019: RMB10,794,000) as at 31 December 2020. In October 2017, the Group's subsidiary in Shandong entered into a cooperation agreement with the local government in Goucunji town, pursuant to which the Group committed to purchase certain land lots and invest in the set up of new factory for the manufacturing of plywood veneers which is one of the key raw materials for the manufacturing of the Group's plywood products. The investment project was terminated in the second half of 2019 in view of the significant decline in plywood business of the Group. The Group further negotiated with the Goucunji town government and obtained the government's agreement to return to the Group the costs of construction already incurred. Accordingly, the relevant amount recorded in construction in progress of RMB21,239,000 and prepayments of RMB350,000, totalling RMB21,589,000, were reclassified to other receivable, and a provision for impairment of RMB10,795,000 was made against the receivable balance as at 31 December 2019.

During the year ended 31 December 2020, the Group received RMB950,000 from Goucunji town government, and subsequently in March 2021, the Group's subsidiary in Shandong entered into an settlement agreement with Goucunji town to settle the remaining receivable at RMB8,000,000, resulting in a further provision for impairment of RMB1,844,000 charged to the income statement for the year. RMB5,450,000 had been received by the end of April 2021. The directors of the Company are confident that the remaining amount of the RMB8 million agreed settlement amount will be fully recovered.

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.

15. SHARE CAPITAL AND SHARE PREMIUM

		Amount		
	Number of ordinary shares	**Share capital**	**Share premium**	**Total**
	'000	*RMB'000*	*RMB'000*	*RMB'000*
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, 1 January 2020 and 31 December 2020	974,400	8,592	212,502	221,094

The total number of authorised share capital of the Company comprised 3,000,000,000 ordinary shares with a par value of HK$0.01 each as at 31 December 2020 and 2019.

16. OTHER RESERVES

	Capital reserves	**Statutory reserves**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	**26,889**	**26,053**	**52,942**

(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 the PRC. The Company's subsidiaries incorporated in the PRC are required to make appropriations to statutory reserves from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under the PRC accounting regulations and before distribution to shareholders. The percentages to be appropriated to such statutory reserve are determined according to the relevant regulations in the PRC at rate of 10% or at the discretion of the board of Directors of the PRC subsidiaries, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries. The statutory surplus reserve fund can be utilised to offset prior years' losses or to issue bonus shares, provided that the balance of such reserve is not less than 25% of the entity's registered capital after the bonus issue.

For the year ended 31 December 2020, PRC subsidiaries did not make appropriations to statutory reserves due to the operating losses during the year.

17. BORROWINGS

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Non-current		
Bonds (a)	–	22,736
Current		
Bonds repayable within one year (a)	**29,037**	7,303
Short-term bank borrowings – secured (b)	**28,900**	29,800
	57,937	37,103
Total borrowings	**57,937**	59,839

(a) Bonds

The Company issued 1 year to 7.5 years term bonds in Hong Kong which are unsecured and interest bearing at 6% to 8% per annum and payable annually. As at 31 December 2019 and 2020, the Group's bonds were repayable as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Within 1 year	**29,037**	7,303
Between 2 and 5 years	–	12,268
Over 5 years	–	10,468
	29,037	30,039

During the year ended 31 December 2020, the Company failed to pay the interests of all the bonds that were due for repayment during the year thereby triggered the default redemption clause of the bond contracts. As a result, all the outstanding bond borrowings amounted to RMB29,037,000 as at 31 December 2020 became immediately repayable if requested by the bond holder creditors, of which RMB7,154,000 represented bonds with original maturity dates within one year, while the remaining RMB21,883,000 represented bonds with original maturity dates beyond 31 December 2021 and were reclassified as current liabilities as at 31 December 2020. In addition, the Company received several writs of summons and a statutory demand with a total statement of claims of approximately HK$5,630,000 issued by certain bond holder creditors against the Company, details of which have been disclosed in the announcements of the Company dated 29 June 2020, 3 September 2020, 24 September 2020, 19 January 2021 and 17 February 2021.

In order to discharge substantially the liabilities and claims against the Company in Hong Kong and to alleviate its cash flow pressure, on 30 November 2020, the Company announced a proposed restructuring of the debts ("Proposed Restructuring") of the Company in Hong Kong, including the bonds borrowings and the interests accrued and other liabilities in Hong Kong, by way of implementing a creditors schemes ("Creditors Schemes"). The Creditors Schemes is a schemes of arrangement to be entered into between the Company and the creditors pursuant to Sections 666 to 675 of the Companies Ordinance of Hong Kong (Chapter 622 of the Laws of Hong Kong) and Section 86 of the Companies Law (2018 Revision) of the Cayman Islands.

The Creditors Schemes shall become effective subject to the fulfilment of the following conditions precedent, inter alia:

a. the Creditors Schemes having been approved by the requisite majority in number representing at least 75% in value of the claims of creditors who, either in person or by proxy, attend and vote at the scheme meetings to be convened with the leave of the relevant courts;

b. the Creditors Schemes being sanctioned by the High Court of Hong Kong and the Grand Court of the Cayman Islands;

c. the passing of the necessary resolution(s) by the independent shareholders (other than those shareholders who are required to abstain from voting on all or any of the resolutions under the Listing Rules) by way of a poll at an extraordinary general meeting of the Company ("EGM") to be convened and held to approve the Proposed Restructuring, as required; and

d. the relevant court orders sanctioning the Creditors Schemes being filed or registered (as the case may be) with the relevant Registrar of Companies in Hong Kong and the Cayman Islands.

The Group has been in active negotiations with the bond holder creditors to seek their support to the Creditors Schemes. As at the date of approval of these consolidated financial statements, none of the above mentioned conditions precedent has been completed. On the best estimate of the Directors of the Company, the Creditors Schemes will be completed in Quarter 3 of 2021 and the Proposed Restructuring will be completed by end of 2021.

(b) Short-term bank borrowings

The Group's short term bank borrowings were borrowed by the PRC subsidiaries of the Group from banks in the PRC. They are secured by the Group's land use rights with net book value of RMB5,521,000 (2019: RMB20,182,000), plants of the Group with net book value of RMB17,648,000 (2019: RMB41,235,000), and investment properties with net book value of RMB33,099,000 (2019: Nil) as at 31 December 2020. The bank borrowings were also guaranteed by Mr. Ke Mingcai, an ex-director of the Company, together with his spouse, Mr. Zhang Ayang, a director of the Company and an employee of the Group's PRC subsidiary.

The Group failed to repay three borrowings from a bank in the PRC, totalling RMB18,900,000 as at 31 December 2020, when the three bank borrowings were due for repayment in January and February 2021. This had triggered cross default of another bank borrowing from a bank in the PRC, totalling RMB10,000,000 as at 31 December 2020, which were originally due for repayment in June 2021 and will be subject to immediate repayment if requested by the respective bank.

The Group has been in active contact with the respective banks in the PRC regarding the repayment arrangement of the Group's bank borrowings in the PRC subsidiaries. In respect of the three overdue bank borrowings totalling RMB18,900,000, following negotiation with the bank, subsequently in April 2021, verbal agreement has been reached with the bank for the extension of the repayment period of the three bank borrowings to June 2021 subject to certain partial early repayments. In respect of the other RMB10,000,000 bank borrowings that were in cross-default and originally due for repayment in June 2021, as confirmed by the Directors of the Company, as at the date of approval of these consolidated financial statements, no demand for early repayment has been requested by the bank or a waiver has been obtained from the bank.

(c) For the year ended 31 December 2020, the weighted average effective interest rate on borrowings from banks was 6.03% (2019: 6.76%) per annum.

(d) The Group's bonds and bank borrowings are denominated in HKD and RMB respectively, and their carrying amounts approximated their fair value as at the balance sheet date.

18. TRADE AND OTHER PAYABLES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Other taxes payable (b)	**18,359**	15,804
Employee benefit payables	**8,473**	5,185
Interest payable	**2,764**	931
Advances from customers	**1,643**	926
Trade payables (a)	**714**	834
Audit fees payable	**2,495**	2,674
Others	**6,474**	3,934
	40,922	30,288

(a) Trade payables

As at 31 December 2020 and 2019 the aging analysis of the trade payables based on invoice date is as follows:

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**714**	834

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 other taxes and levies in the PRC. 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. During 2019 the change in the calculation of VAT deduction for the purchase of raw wood materials which is a kind of agricultural products and is subject to calculation of input VAT based on a percentage of plywood products. As a result, during 2020 the Group's deductible input VAT was decreased by RMB7,377,000 (2019: RMB11,555,000) which was not rechargeable to the suppliers, of which RMB3,063,000 (2019: RMB7,143,000) was recorded as an increase in cost of goods sold in the consolidated statement of comprehensive income and RMB4,314,000 (2019: RMB4,412,000) was recorded as inventory as at 31 December 2020.

19. EVENTS AFTER THE BALANCE SHEET DATE

(a) As mentioned in Note 17(b) above, the Group failed to repay three bank borrowings in the PRC totalling RMB18,900,000 as at 31 December 2020, when the bank borrowings were due for repayment in January and February 2021, and had triggered cross default of another bank borrowing in the PRC, totalling RMB10,000,000 as at 31 December 2020, which were originally due for repayment in June 2021 and will be subject to immediate repayment if requested by the respective bank. Further details are set out in Note 17(b) above.

(b) The proposed Open Offer of shares of the Company

On 8 January 2021, the Company announced a proposed open offer of shares of the Company ("Open Offer") to raise fund for the implementation of the Creditors Schemes (Note 17(a)). The Open Offer was conditional upon the approval of the Creditors Schemes by the creditors (Note 17(a)). The Company proposed to raise approximately HK$29.2 million (after expenses) through the issuance of 487,200,000 offer shares of the Company at an offer price of HK$0.06 per share ("Offer Shares").

On 17 May 2021, the board of directors of the Company resolved to modify the Open Offer to an open offer ("New Open Offer"), subject to regulatory approval, the size of the open offer will be increased from the previous HK$29 million to HK$54.5 million (equivalent to approximately RMB45.9 million) through the issuance of 779,520,000 offer shares of the Company ("New Offer Shares") at an offer price of HK$0.07 per share ("New Offer Price"). Among the HK$54.5 million issue proceeds, HK$20 million will be used for settlement of the payment obligations under the Creditors Schemes, HK$33.5 million (equivalent to approximately RMB28.3 million) will be used for repayment of the bank borrowings in the PRC, and the remaining HK$1 million will be for working capital of the Group. To ensure successful completion of the New Open Offer, certain shareholders, have provided the Company irrevocable undertakings to the subscription of the New Offer Shares under the New Open Offer. The directors of the Company expect that the New Open Offer will be completed in the third quarter of 2021.

The New Open Offer is conditional upon the fulfilment of the following conditions precedent, inter alia:

a. the obtaining of the approval and authorisation by the Hong Kong Stock Exchange for the Company to issue the announcement for the proposal of the New Open Offer;

b. the passing of the necessary resolution(s) by the independent shareholders (other than those shareholders who are required to abstain from voting on all or any of the resolutions under the Listing Rules) at an EGM to approve the New Open Offer;

c. the obtaining of the approval and authorisation by the Hong Kong Stock Exchange for issue of the prospectus by the Company in relation to the New Open Offer;

d. the granting or agree to grant by the Listing Committee of Hong Kong Stock Exchange the listing of and permission to deal in all the New Offer Shares;

e. all requirements and conditions imposed by the regulatory authorities in connection with the New Open Offer having been fulfilled or complied with; and

f. compliance with and performance of the irrevocable undertakings of certain shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

The Group is principally engaged in the manufacturing, sales and distribution of plywood products and biomass wood pellets. As the demand for biomass wood pellets has significantly reduced since the latter part of 2019 which continued more significantly so in the first half of 2020, the Group made the decision to cease the operations of this business segment and leased out part of the biomass wood pellets factories as well as other factories and land which are surplus to needs for stable recurring rental income.

Plywood Products

The manufacturing and sales of plywood products has contributed significantly to the overall business of the Group. The Group's main production base is strategically located in Heze City, Shandong Province in the PRC.

Given its strategic location of the Group's manufacturing facilities, abundant resources of poplars is available and the Group is able to receive a stable supply for its manufacturing business.

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)) to hardwood multi-layered board (實木多層板), which are mainly made of poplars. All our products are customised depending on our customers' needs.

Furniture board is widely used in interior design and certain household furniture, such as tables and chairs, because of its strength, appearance and cost. Ecological plywood, which is also known as melamine faced board, is considered to be more environmentally friendly as compared to the traditional lacquered board. In order to satisfy the requisite requirements for the heat pressing process, several heat pressing processes are included in the production of ecological plywood in order to achieve a smooth surface and lower moisture content. Ecological plywood can be used in interior applications of buildings and furniture making. Hardwood multi-layered board is widely used in high-quality furniture, kitchen furniture and bathroom furniture. Generally, hardwood multi-layered boards are of a higher quality due to the quality of its raw materials and a more complicated production process.

Customers of the Group are mainly end users, such as furniture manufacturers, equipment manufacturers, decoration or renovation companies and packing material producers, and trading companies. Most customers of the Group's plywood products are located in Eastern China and Southern China regions.

The total revenue of the Group is mainly contributed by the sales of plywood products, which accounted for approximately 97.5% of the total revenue for the year ended 31 December 2020.

The Group maintains a large customer base for the plywood products and there were totally 121 customers of plywood products for the year ended 31 December 2020, out of which the five largest customers contributed for approximately 46.6% of the total revenue of plywood products.

Discontinued Operations of Biomass Wood Pellets

Despite the Group's biomass wood pellets being considered as one of the newer clean alternative energy sources which fit with 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 an impediment to potential buyers. In addition, certain measures promulgated by the local PRC Government authorities have been implemented in various cities in the PRC to promote the use of natural gas to reduce the use of combustion boiler, in which biomass wood pellets were burnt to generate energy. Such measures have negatively impacted the demand for 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 has decided to gradually scale down the productions on biomass wood pellets and in the second half of 2020 made the decision to cease the operation of the business. Accordingly, this business has been classified as discontinued operations.

Since 1 July 2020, the Group has entered into lease agreements to partially lease out the biomass wood pellets factories for agricultural wholesale as well as other factories and land which are surplus to needs in order to generate a stable and recurring rental income.

RECENT DEVELOPMENT

COVID-19 and its Challenges

Since January 2020, there has been a global outbreak of 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 and the rest of the world. Given the full impact of COVID-19 to the Group and its customers in the second half of 2020, the management believes COVID-19 has a material impact to the Group's 2020 financial results, and especially its profit margin, cash flow and liquidity needs.

Although the Group's production capacity has resumed to a reasonable level since March 2020 after a temporary suspension of operation in our manufacturing facilities as a precautionary measure against the spread of COVID-19, there has been certain cancellation and postponement of purchase orders on plywood products from the Group's customers. Given the effect of COVID-19, almost all of our customers have requested for substantial price reductions on our plywood products. In the second quarter of 2020, the management made a difficult decision to continue offering substantial discounts to maintain normal production levels on the plywood products and to retain our customers.

As COVID-19 persisted in the second half of 2020 with no signs of market conditions improving, the management had no choice but to continue offering its products at a substantial discount due to weak demand from our customers. The price reductions have affected the profitability of our business in the short run and in turn further reduced our profit margins. As most of our customers (especially those in the furniture sector) export to certain countries where COVID-19 cases have surged in the second half of 2020, certain of our customers have similar experience with their own business and financial difficulties due to lockdown restrictions which had been imposed.

For the Group's plywood business, while the Group is able to maintain its sales volume in 2020 (101,432 m^3 in 2020 as compared with 113,707 m^3 in 2019), the Group has experienced sharp decrease of revenue (Revenue was approximately RMB175.3 million in 2020 as compared with approximately RMB305.5 million in 2019). This is mainly due to the price reductions offered (average price of RMB1,714 per m^3 in 2020 as compared with RMB2,687 per m^3 in 2019).

Scheme of Arrangement and Open Offer

References are made to the announcements of the Company dated 30 November 2020 and 8 January 2021 (the "Announcements") in relation to the proposed debt restructuring. Unless otherwise stated, the terms used in this section have the same meanings as those defined in the Announcements.

On 30 November 2020, the Board, having considered the latest financial position of the Group, resolved to implement a debt restructuring plan which includes, among others, the Creditors Schemes. On 8 January 2021, the Board further resolved to implement the Open Offer to fund the implementation of the Creditor Schemes.

In light of the uncertainties cast by the outbreak of COVID-19, the Sino-US trade war and economic downturn in the PRC, the Group's business has been adversely affected since the beginning of 2020. The PRC main operating subsidiaries have been making losses in 2019 and first half of 2020.

The Company has received several writs of summons with a total statement of claim of approximately HK$5.6 million issued in the District Court of the Hong Kong by certain creditors against the Company, which have been disclosed in the announcements of the Company dated 29 June 2020, 3 September 2020 and 24 September 2020 and 17 February 2021. The Company has also received a statutory demand pursuant to section 178(1)(a) or section 327(4)(a) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

(Chapter 32 of Laws of Hong Kong) from one of its creditors on 19 January 2021 for the claim of HK$0.1 million, being the unpaid interest of the bond in the principal amount of HK$2.0 million issued by the Company to the bondholder.

Considering that the Group's cash are held in the accounts of its main operating subsidiaries in the PRC, the imminently due outstanding bank borrowings, the prevailing financial market conditions and economic outlook, the Board considers that it would be in the interest of the Company to restructure its debts by way of implementing the Creditors Schemes, as part of the Proposed Restructuring, to discharge all liabilities and claims against the Company and to alleviate its cash flow pressure.

The Company has appointed Ernst & Young Transactions Limited as its restructuring adviser (the "Restructuring Adviser") to assist the Company regarding the Proposed Restructuring. The Company will continue to work closely with the Restructuring Adviser and its other professional advisers to expedite the implementation of the Proposed Restructuring.

OUTLOOK

The management believes that market conditions will remain challenging in 2021. We are uncertain how COVID-19 and its impact will develop over the coming months.

Plywood Products

The management believes that the sales volumes and pricing of the plywood products will improve in the second half of 2021, based on the assumption that vaccines would prove to be effective and would be widely adopted globally by the end of the second quarter of 2021. This may result in a gradual surge in demand in the products of our customers and in turn the demands of our plywood products. We remain confident in the long-term competitiveness of our plywood products, given our years of development experience in the production process and quality control, and our ability to meet the needs of our customers. We will continue to leverage on our strategic advantage of having quality poplar supplies in our neighbourhood as the world recovers from the impact of COVID-19.

Going forward, on the one hand, the Group will continue to take steps to raise the selling prices and gross margins of its plywood products and gradually raise the level of volume of sales in the near to medium term, and on the other hand, the Group will also review the prospect of capturing the middle to low end plywood market and explore the prospects of developing, along the furniture supply chain, the manufacturing, sales and distributions of furniture in the longer term. The middle to low end plywood market allows the Group to serve both domestic and international end users, once successfully implemented, will reduce the degree of the Group's sole reliance on demand from international customers which is highly dependent on the degree of recovery of COVID-19 and the success of vaccine and susceptible to economic fluctuations of the countries in which our high-end plywood customers are based. The longer term prospects of entering into the furniture business, if successful, will allow the Group to capture the more profitable parts of the furniture supply chain with significant improvement to the overall gross profit and gross profit margin.

The drive to improve sales prices and improvement in gross profit margins had borne fruits as the overall gross margin for the first quarter of 2021 (based on the unaudited management accounts for the three months ended 31 March 2021) has improved by around 4% as compared to that of the last quarter of the 2020 year.

China Opportunities

With COVID-19 under control in China and the domestic market demonstrating a recovery in demand, the management will also make a proactive effort to optimize and diversify its plywood business to focus on business opportunities within China.

Investment Properties

Since 1 July 2020, the Group has entered into lease agreements to lease out its idle factories and land. This will continue to bring in stable and recurring income to the Group.

MATERIAL ACQUISITIONS AND DISPOSALS

Save as disclosed elsewhere in this report, the Group did not carry out any material acquisition or disposal of any subsidiary, associate or joint venture during the year ended 31 December 2020.

FINANCIAL REVIEW

Business Segments

Biomass wood pellets

Biomass wood pellets were in the past considered as one of the clean and new alternative energy sources which used to fit in with the policy for environmental protection in China. However, since the Central People's Government of China took a more stringent approach on environmental measures, some of the Group's customers on biomass wood pellets have shifted to use natural gas. As a result of this as well as the impact of COVID-19, the Group's revenue from biomass wood pellets dropped significantly during the year ended 31 December 2019 which continued into the first half of 2020. After reviewing the future prospects of the biomass wood pellets business and given the uncertainty of the continuing viability of such a business, management of the Group made the decision to terminate the business with effect from July 2020. Accordingly, the biomass wood pellets business ceased to be a business segment and has been reclassified as discontinued operations for reporting purposes for the year ended 31 December 2020. Certain comparative figures contained in the consolidated financial statements for the year ended 31 December 2019 have been restated in line with the basis of presentation adopted for the year ended 31 December 2020.

Rental Income

Following the cessation of the biomass wood pellets business, to make better use of the properties of the biomass wood pellets plant as well as other plants and land which are surplus to the current and future needs of the Group, management of the Group decided to lease out some of these properties under long term lease to generate recurring rental income. As a result of this, rental income business became a new business segment of the Group for reporting purposes for the year ended 31 December 2020.

Results from Continuing Operations

Revenue

For the year ended 31 December 2020, the Group reported a drop in revenue of approximately RMB130.2 million, or 42.6%, from approximately RMB305.5 million for the year ended 31 December 2019 to approximately RMB175.3 million for the year ended 31 December 2020. Such drop in sales was primarily attributable to the plywood products for the year ended 31 December 2020 which was marginally offset by the rental income generated from investment properties. Revenue arising from sales of plywood products dropped from approximately RMB305.5 million for the year ended 31 December 2019 to approximately RMB173.9 million for the year ended 31 December 2020 representing a drop of approximately RMB131.6 million, or 43.1%. Revenue arising from the rental income business for the year ended 31 December 2020 was approximately RMB1.4 million (2019: Nil).

After the outbreak of COVID-19 at the beginning of 2020, to combat COVID-19, measures such as quarantine, lock downs and travel restrictions have been implemented across the globe. These measures have significantly disrupted general economic conditions and demand for non-essential goods, which in turn, significantly and negatively impacted the global economic activities and the demand of the Group's plywood products. As a result, the Group's customers reduced their purchase orders on plywood products as demand from the end purchasers of their finished products dropped significantly for the entire 2020 year. As an interim measure to improve liquidity, the Group made the decision to lower the selling price for its plywood products during the six months ended 30 June 2020. With demand for the Group's plywood products continued to contract in the latter half of the 2020 year, the Group was unable to lift the selling prices for its plywood products to the extent as intended in the latter half of 2020. These factors contributed to the overall drop in the Group's revenue and profitability from plywood products for the 2020 year.

Gross loss

The gross loss for the year ended 31 December 2020 increased from approximately RMB24.3 million for the year ended 31 December 2019 to a gross loss of approximately RMB113.8 million. The gross loss margin for the year ended 31 December 2020 increased from a gross loss margin of approximately 7.9% for the year ended 31 December 2019 to a gross loss margin of approximately 64.9%. Included in cost of sales for the year ended 31 December 2020 were provisions for inventory write-down of approximately RMB7.4 million (2019: approximately RMB6.0 million) and impairment charges for property, plant and equipment of approximately RMB2.5 million (2019: approximately RMB7.5 million). Excluding these specific provisions, for the year ended 31 December 2020, the adjusted gross loss was approximately RMB103.9 million (2019: approximately RMB10.8 million) and gross loss margin was approximately 59.3% (2019: approximately 3.5%).

Other income

Other income for the year ended 31 December 2020 was approximately RMB2.8 million (2019: approximately RMB2.7 million) mainly comprised income earned from the sales of poplar core being the residuals generated from the production the Group's plywood products.

Other losses – net

Other losses – net represents the non-recurrent losses recorded during the year ended 31 December 2020. Such losses were mainly due to the loss attributable to the disposal of certain property, plant and equipment and construction in progress of the Group which in aggregate amounted to approximately RMB14.1 million (2019: approximately RMB0.6 million) while the one-off write-offs of the Group's inventories of plywood products totalling approximately RMB8.1 million due to damage caused by flooding in July 2019 and the forfeiture of a land purchase of RMB3.3 million in the year ended 31 December 2019 which did not recur in the year ended 31 December 2020.

Selling and distribution expenses

Selling and distribution expenses mainly comprise employee benefits expenses incurred for the sales team and the distribution costs for our products for the year ended 31 December 2020. There was a drop of approximately RMB0.2 million in selling and distribution expenses for the year ended 31 December 2020 as compared to the year ended 31 December 2019. The drop in expenses correlated with the decrease in sales activities as a result of COVID-19.

Administrative expenses

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 administrative expenses of approximately RMB6.4 million from approximately RMB21.0 million for the year ended 31 December 2019 to approximately RMB14.6 million for the year ended 31 December 2020 was mainly due to the decrease in raw materials and consumables used for research and development for the year ended 31 December 2020 as compared the year ended 31 December 2019.

Net impairment losses on financial assets

Net impairment losses on financial assets relate to the impairment provision for trade receivables and other receivables recorded during the year ended 31 December 2020. The increase in provision from approximately RMB11.4 million for the year ended 31 December 2019 to approximately RMB61.9 million for the year ended 31 December 2020 mainly due to the collectability of outstanding receivables from the Group's downstream customers which have been experiencing difficulties in their business operations as a result of COVID-19.

Net finance costs

Finance costs − net for the year ended 31 December 2020 showed a decrease of approximately RMB2.8 million from approximately RMB5.0 million for the year ended 31 December 2019. The decrease was mainly due to the net foreign exchange gains arising from the borrowings denominated in HK$ of approximately RMB2.2 million as a result of the appreciation of RMB against HK$ during the year ended 31 December 2020.

Income tax expense/(credit)

For the year ended 31 December 2020, the Group recorded an income tax expense of approximately RMB6.2 million as compared to income tax credit of approximately RMB4.5 million for the year ended 31 December 2019. The income tax expense for the year ended 31 December 2020 was mainly related to unrecognised temporary differences.

Total comprehensive loss attributable to Shareholders

Total comprehensive loss attributable to the shareholders of the Company increased from approximately RMB75.6 million for the year ended 31 December 2019 to approximately RMB235.3 million for the year ended 31 December 2020. The increase was mainly due to the reasons stated above.

Results from Discontinued Operation

The discontinued operation relates to the cessation of business of the biomass wood pellets during the year ended 31 December 2020. Overall loss for the year was approximately RMB24.0 million as compared to the loss of approximately RMB8.0 million for the year ended 31 December 2019. The results reflected the significant drop in revenue of approximately RMB10.0 million as compared to the year ended 31 December 2019 and the significant increase in the provision for impairment losses on financial assets (trade receivables) of approximately RMB18.9 million for the year ended 31 December 2020.

Property, plant and equipment

The Group used to operate two plants for the production of plywood products and biomass wood pellets respectively in Heze City, Shandong Province, China. As a result of the cessation of the biomass wood pellets business in July 2020, the Group has since leased out the biomass wood pellets plant as well as other plants and land which are surplus to current and future needs to certain operators under long term lease to generate recurring rental income. As a result of this, the corresponding plant and land use rights of approximately RMB43.6 million and approximately RMB15.9 million respectively were reclassified and transferred to investment properties. This together with the scrapping of the construction in progress and loss from disposal which in aggregate amounted to approximately RMB14.1 million in the year ended 31 December 2020 accounted for the significant drop in balance as at 31 December 2020 as compared to as at 31 December 2019.

As at 31 December 2020, items of property, plant and equipment with net book value of approximately RMB17.6 million (2019: approximately RMB41.2 million) were pledged to secure short-term the bank borrowings advanced to the Group.

Investment properties

Investment properties of approximately RMB45.9 million as at 31 December 2020 (2019: Nil) represented land use rights and plants transferred from property, plant and equipment. Investment properties are stated at fair value determined with reference to independent valuer's valuation as at 31 December 2020.

Inventories

The Group's inventory balances as at 31 December 2020 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 RMB35.5 million, from approximately RMB82.7 million as at 31 December 2019 to approximately RMB47.2 million as at 31 December 2020, was mainly due to (i) the provision for write-down of the Group's inventories to their net realisable values of RMB7.4 million (2019: approximately RMB6.0 million) as a result of the decrease in their estimated sales prices as at 31 December 2020; and (ii) less work in progress and finished goods of plywood products as at 31 December

2020 due to less purchase orders received by the end of December 2020 and less estimated sales in the first quarter of 2020 as compared to the corresponding period for 31 December 2019.

Trade receivables

Trade receivables balance as at 31 December 2020 mainly represented outstanding receivables balance from customers of our plywood products. There was a decrease in trade receivables balance of approximately RMB85.6 million, from approximately RMB174.5 million as at 31 December 2019 to approximately RMB88.9 million as at 31 December 2020. The decrease in trade receivables balance was mainly due to the decrease in revenue, which mainly resulted from COVID-19 and the additional provision for impairment of trade receivables of approximately RMB73.6 million as at 31 December 2020.

Cash and cash equivalents

Cash and cash equivalents balance as at 31 December 2020 decreased to approximately RMB5.8 million as compared to approximately RMB51.0 million as at 31 December 2019. The decrease in cash and cash equivalents balance was mainly due the purchases of property, plant and equipment of approximately RMB16.1 million and funding need to bridge the funding gap on the ongoing operations of the business of the principal operating subsidiaries of the Group in the PRC as a result of drop in level of sales and negative gross profit and margins experienced during the year ended 31 December 2020.

Borrowings and charge on assets

The source of debt financing of the Group was mainly from banks and individual bondholders. As at 31 December 2020, the Group had bank borrowings denominated in RMB of approximately RMB28.9 million from banks located in China, decreasing from RMB29.8 million as at 31 December 2019. The Group's bank borrowings are secured by land use rights and plants of the Group with aggregate net book value of approximately RMB23.2 million (2019: approximately RMB61.4 million) and investment properties of the Group with net book value of approximately RMB33.1 million (2019: Nil), and certain guarantees provided to the banks by certain former and present directors and individuals as at 31 December 2020.

Liquidity and resources

As at 31 December 2020, the Group had current assets of approximately HK$164.3 million (as at 31 December 2019: approximately HK$346.1 million) and current liabilities amounted to approximately HK$106.0 million (as at 31 December 2019: approximately HK$75.0 million). Accordingly, the current ratio, being the ratio of current assets to current liabilities, was approximately 1.6 as at 31 December 2020 (as at 31 December 2019: approximately 4.6).

Gearing ratio

As at 31 December 2020, 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 year, was approximately 34.2% (2019: approximately 14.8%). Gearing ratio increased when compared with that of the year ended 31 December 2019 resulted primarily from the decrease in equity due to net loss for the year ended 31 December 2020.

Foreign currency risk

A substantial majority of our assets and liabilities are denominated in RMB, except for certain bank balances which 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 2020. The Group will continue to monitor foreign currency risk exposure and will consider hedging significant foreign currency risk should the need arise.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2020 (2019: Nil).

CAPITAL COMMITMENTS

As at 31 December 2020, the Group had no capital commitments contracted but not provided for (2019: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the years ended 31 December 2020 and 2019, save as disclosed elsewhere in this announcement, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

EMPLOYEE AND EMOLUMENT POLICY

The Group has 153 employees in Hong Kong and Mainland China as at 31 December 2020. The total salaries and related costs granted to employees amounted to approximately RMB12.2 million for the year ended 31 December 2020.

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 statistics will be set out in the Environmental, Social and Governance Report to be published in due course.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") and devised its own code of conduct for dealing in securities of the Company by the Directors on terms no less exacting than the Model Code. Specific enquiry has been made to all Directors, who have confirmed that, during the year ended 31 December 2020, each of them was in compliance with the required standards set out in the Model Code and the Company's code of conduct.

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.

CORPORATE GOVERNANCE

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with the code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the year ended 31 December 2020.

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

Neither the Company, nor any of the subsidiaries of the Company purchased, redeemed or sold the listed securities of the Company during the year ended 31 December 2020.

REVIEW BY THE AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has been established in compliance with Rules 3.21 and 3.22 of the Listing Rules with written terms of reference in-compliance with the CG Code. The primary responsibilities of the Audit Committee are to review and monitor the financial reporting and internal control and risk management principles of the Group and to assist the Board to fulfill its responsibilities over audit. The Audit Committee has reviewed and confirmed the accounting principles and practices adopted by the Group and discussed the auditing, internal control, risk management and financial reporting matters. The annual results of the Group for the year ended 31 December 2020 have also been reviewed by the Audit Committee.

The Audit Committee consists of three independent non-executive Directors: Mr. Kwok Wai Ching Harrison, Ms. Lo Yuk Yee and Mr. Tso Siu Lun Alan. Mr. Kwok Wai Ching Harrison serves as the chairman of the Audit Committee. The annual results of the Company for the year ended 31 December 2020 has been reviewed by the Audit Committee.

SCOPE OF WORK OF AUDITOR

The financial information presented in this announcement has been agreed by PricewaterhouseCoopers, the Company's independent auditors, to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2020, which has been audited by PricewaterhouseCoopers. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

AUDIT OPINION

PricewaterhouseCoopers issued a Disclaimer of Opinion on the consolidated financial statements of the Group for the year ended 31 December 2020. An extract of the independent auditor's report is set out in the section headed "EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT" below.

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of Da Sen Holdings Group Limited (the "Company") and its subsidiaries (together, the "Group"), which comprise:

- the consolidated balance sheet as at 31 December 2020;
- 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.

We do not express an opinion on the consolidated financial statements of the Group. Because of the potential interaction of the multiple uncertainties and their possible cumulative effect on the consolidated financial statements as described in the Basis for Disclaimer of Opinion section of our report, it is not possible for us to form an opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

Multiple uncertainties relating to going concern

As described in Note 2.1(b) to the consolidated financial statements, the Group incurred a net loss of RMB235,302,000 and reported a net operating cash outflow of RMB29,473,000 during the year ended 31 December 2020. As at 31 December 2020, the Group's equity attributable to shareholders of the Company amounted to RMB169,271,000. As at same date, the Group's current borrowings amounted to RMB57,937,000 in total, including RMB29,037,000 bonds borrowings in Hong Kong and RMB28,900,000 bank borrowings in the People's Republic of China ("PRC"), while the Group's cash and cash equivalents was only RMB5,763,000. During the year ended 31 December 2020, the Company failed to pay the interests of all of the bonds, thereby triggered the default redemption clause of the bonds contracts. In addition, the Company received several writs of summons and a statutory demand from the bond holder creditors in relation to the overdue payment of bonds' principals and interests. Also, the Group failed to repay three bank borrowings in the PRC amounting to RMB18,900,000 in total as at 31 December 2020 when the borrowings were due for repayment in January and February 2021. This had also triggered cross-default of another bank borrowing amounting to RMB10,000,000 which was originally due for repayment in June 2021 and will be subject to immediate repayment if requested by the respective bank. These conditions, together with other matters described in Note 2.1(b) to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

The Directors of the Company have been taking a number of measures to improve the Group's liquidity and financial position, to refinance its operations and to restructure its borrowings, which are set out in Note 2.1(b) to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures, which are subject to multiple uncertainties, including: (i) successfully and timely executing the plan of New Open Offer of the Company which is conditional upon, inter alia, the obtaining of the regulatory approvals at different stages, the necessary and relevant shareholders' approvals, compliance with and performance of irrevocable undertakings provided by certain shareholders to the subscription of shares as well as other conditions precedent as set out in Note 33(b); (ii) successfully implementing the proposed restructuring of debts of the Group in Hong Kong through the implementation of the creditors schemes which is subject to obtaining necessary approval from the bond holder creditors and shareholders as well as the successful fulfilment of the other conditions precedent of the creditors schemes as set out in Note 24(a); (iii) successfully negotiating with the bank for the extension for repayments of the overdue bank borrowings as well as convincing another bank not to demand for immediate repayment of the bank borrowing with cross-default; (iv) successfully and timely raising additional cash through financing from major shareholders and the potential disposal of certain assets of the Group; and (v) successfully implementing the measures to improve sales, control costs, contain capital expenditures as well as to accelerate the collection of trade and other receivables and the disposal of inventories so as to enhance the Group's working capital position.

As a result of these multiple uncertainties, the potential interaction of these uncertainties, and, the possible cumulative effect thereof, we were unable to form an opinion as to whether the going concern basis of preparation is appropriate.

Should the Group fail to achieve the abovementioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effects of these adjustments have not been reflected in these consolidated financial statements.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: Nil).

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company ("AGM") will be held on Friday, 25 June 2021. For details of the AGM, please refer to the Notice of AGM which is expected to be published in May 2021

PUBLICATION OF THE RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the website of the Stock Exchange at www.hkexnews.hk.

The annual report of the Company for the Year will be despatched to the shareholders of the Company and published on the above websites in May 2021.

By order of the Board
Da Sen Holdings Group Limited
WONG Wai Keung Frederick
Executive Director

Hong Kong, 17 May 2021

As at the date of this announcement, the executive Directors are Mr. CHAI Kaw Sing, Mr. SUN Yongtao, Mr. WONG Ben, Mr. WONG Wai Keung Frederick and Mr. ZHANG Ayang; and the independent non-executive Directors are Mr. KWOK Wai Ching Harrison, Ms. LO Yuk Yee and Mr. TSO Siu Lun Alan.