Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE 2020 ANNUAL REPORT

References are made to the annual report of Da Sen Holdings Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2020 (the "**2020 Annual Report**"). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the 2020 Annual Report.

As disclosed in the 2020 Annual Report, the Group made certain disclaimer of opinion on the Company's 2020 Annual Report relating to going concern. In this connection, the Company would like to supplement the information disclosed in the 2020 Annual Report:

THE AUDIT MODIFICATION

The Directors have undertaken substantial work to improve the Group's liquidity and financial position, refinance its operations and restructure its debts in view of removing the audit modification for the year ending 31 December 2021 (the "**Audit Modification**"). As disclosed in the Company's announcements dated 30 November 2020, 8 January 2021 and 18 May 2021, the Board has resolved to implement a debt restructuring, which includes, 1) the Open Offer; and 2) the Creditors Schemes.

The Open Offer

On 17 May 2021, the Board resolved to modify the Open Offer, subject to regulatory approval, and the total proceeds raised from the revised Open Offer will be increased from the previous HK$29 million to HK$54.5 million through the issuance of 779,520,000 offer shares of the Company at an offer price of HK$0.07 per offer share (the "**New Open Offer**"). Among the total net proceeds of HK$54.4 million, approximately HK$20 million will be used for settlement of the payment obligations under the Creditors Schemes, approximately HK$33.5 million will be used for repayment of the bank borrowings in the PRC subsidiaries, and the remaining approximately HK$0.9 million will be used for working capital of the Group. The Directors expect that the New Open Offer will be completed in August 2021.

As at the date of this announcement, the Company intends to revise certain terms of the New Open Offer. The revised terms will be disclosed by way of announcements once it has been finalised. Given the foregoing, it is expected that the Circular will be despatched on or before 30 July 2021.

The Creditors Schemes

As disclosed in the Company's announcement dated 3 December 2020, the Company has engaged the restructuring advisor to advise on the implementation of the proposed debt restructuring and Creditors Schemes. Based on the best estimate of the Directors, the Proposed Restructuring and the Creditors Schemes will be completed in the third quarter of 2021.

Potential Disposal of certain assets of the Group

As at the date of this announcement, the Company is also in discussion with a potential independent buyer, on possible disposal of certain assets of the Group to repay the Group's bank borrowings in its PRC subsidiaries.

New business initiatives

One of the uncertainties that may affect the going concern basis used in the consolidated financial statements of the Company for the year ended 31 December 2020 is the outcome of, among other things, whether the Group can implement new measures to improve sales such as rolling out new business initiatives with products of higher profit margin, control costs, contain capital expenditures, and accelerate the collection of trade and other receivables and the disposal of inventories so as to enhance the Group's working capital position. As at the date of this announcement, the Company is in discussion with a potential business partner to explore the possibilities of exporting its products to the Asian markets including Japan.

Taking into consideration the action plan (as set out in the section above) suggested by the Directors, the management of the Company (the "**Management**") and the audit committee of the Company are of the view that, barring unforeseen circumstances, the Audit Modification relating to going concern can be removed and will be removed in the next financial year (i.e. the year ending 31 December 2021).

Subject to the successful implementation of the Proposed Debt Restructuring, including both the revised Open Offer and the Creditors Schemes, the Company and the auditors expects the Audit Modification to be removed in the next financial year (i.e. the year ending 31 December 2021).

ADDITIONAL DETAILS RELATING TO THE PROVISIONS FOR IMPAIRMENT

(I) Financial Assets

For the year ended 31 December 2020, the Company recognized a provision for impairment of trade receivables of RMB61.9 million due to the recoverability of outstanding receivables from the Group's downstream customers. The Company would like to provide the following additional information relating to this matter:

Events and circumstances leading to the recognition of the impairment

During the course of preparing for the 2020 annual results, the Management conducted an impairment assessment on trade receivables of the Group's customers. The Management considered indicators such as the debtor failing to agree with the Company as to a viable repayment plan, and any failure by the debtor in meeting its contractual repayment obligations within its credit period. Certain provisions for impairment on trade receivables were made by the Management as it cannot reasonably expect those receivables to be recoverable based on the expected credit loss analysis.

The Company has monitored its working capital on an on-going basis to minimise potential credit risks. Regular evaluation of its trade receivables with ad hoc and regular contacts with its customers at least on a monthly basis were also conducted by the Management to make collective assessments on the recoverability of receivables based on information available, historical settlement records and their past experiences. As part of its assessment, the Group's executive Director, Mr. Zhang Ayang together with the finance team in the PRC will conduct regular credit evaluations of its debtors' financial condition to predict the expected recoverability and timing for collection of the outstanding balances and will follow up on all aged outstanding balances. If the Management believes that there are material credit risks inherent in any outstanding balance of receivables, the Company may take appropriate legal actions to recover such outstanding balances as circumstances warrant so.

Method and basis used in determining the provision amount

In arriving at the provision amount for impairment of trade receivables, the Management assessed the expected credit losses for grouped trade receivables based on shared credit risk characteristics, the amount of days past due and the expected time required for collection. The expected loss rates were considered based on the payment profiles of customers over a 36 months period prior up to 30 December 2020 and the corresponding historical credit losses experienced within this period. The historical loss rates were adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Management also considered the business, financial or economic conditions, performance and behaviour of customers, and adjusted the historical loss rates based on expected changes in these factors accordingly.

As the market conditions continued to deteriorate further in 2020 brought about by the COVID-19 pandemic, the Management expected the default rate of its debtors to rise. The Management considered various indicators, including, but not limited to, the consumer price index, the producer price index and the prevailing market conditions in assessing how the expected loss rate should be adjusted. The Company also considered the probability of default ("**PD**") and potential loss given default ("**LGD**") for its financial assets in its analysis. Given the difficult economic conditions and its analysis based on the above factors, the management incorporated both current and forward-looking information by increasing its expected loss rates based with reference to its historical loss rate.

In assessing the expected loss rate, the Management calculated the PD and LGD for each class of accounts receivables by incorporating forward-looking adjustments, taking into accounts the effect of macroeconomic variables such as consumer price index and producer price index. The Management adjusted both the PD and LGD using the Merton's model and the Moody's model respectively taking into accounts the effect of macroeconomic variables. In deriving the weighted average of the expected loss rates for the Group's impairment assessment, the expected loss rate for each of the future scenarios were calculated by multiplying the respective adjusted PD and the respective adjusted LGD.

The total historical loss rate and the total expected loss rate for the year ended 31 December 2019 and the year ended 31 December 2020 were (i) approximately 3.54% and 5.53% and (ii) approximately 13.72% and 6.59%, respectively, details of which are set out as follows:

	Current	**Past due for 1 to 6 months**	**Past due for more than 6 months and less than 1 year**	**Past due for more than 1 year**	**Total**
Historical loss rate	1.52%	3.41%	15.74%	42.79%	5.53%
Expected loss rate	2.13%	4.27%	11.12%	54.57%	6.59%

The Board, having considered the characteristics and profile of the Group's customers which have remained relatively the same in previous years, concluded that the basis of assessment adopted for the year ended 31 December 2020 (being the basis which has been adopted and applied consistently by the Group in previous years) is appropriate.

(II) Investment Properties

For the year ended 31 December 2020, the Company recognised an impairment charge on investment properties of RMB28.2 million with reference to the valuations performed by Shandong Tongcheng Real Estate Valuation and Consulting Co., Limited (the "**Valuer**") using the market approach. The Valuer considered that the market approach was the most appropriate method for valuing Group's investment properties (the "**Investment Properties**") for reasons explained below.

After assessing the appropriateness of possible methodologies for each valuation approach and circumstances and facts specific to the Investment Properties, the Valuer considered that the market approach was the most appropriate valuation methodology for valuing the Investment Properties. The rationale for this method is to determine the market rate by considering identified market comparable transactions with the subject property. Adjustments will be applied to the said comparable transactions to adjust for differences between the subject property and the comparable transactions.

The Investment Properties under valuation are located at Heze, Shandong Province, PRC and has a total building area of approximately 31,230 square meters. Three comparable transactions (based on the types of land use, location of land and valuation of land of similar classification the price variation on the real estate market) were identified by the Valuer as being similar to the Group's Investment Properties for each of the valuations. The Valuer used the following formula in deriving the value of the Investment Properties:

Unit Price of subject property
*= Unit price of comparable properties * Transaction adjustment factor*
** Transaction date adjustment factor * Location adjustment factor*
** Other specific adjustment factor(s)*

Note:

(i) The relevant adjustment factors are assessed based on the circumstances of the comparable transactions to adjust for differences between the subject property and the comparable transactions.

(ii) The unit price of the comparable properties which are located within Heze, Shandong Province, PRC had a price per square meter ranging from RMB1,400 to RMB1,500.

Based on the independent valuations conducted by the valuer, the price per square meter of the Investment Properties under valuation are estimated to range from RMB1,441 to RMB1,485. The Board was satisfied that the valuation and the relevant underlying assumptions and methodology in relation to the Investment Properties were fair and reasonable. The Valuer considered the market approach to be most appropriate under the circumstances.

By order of the Board
Da Sen Holdings Group Limited
CHAI Kaw Sing
Executive Director

Hong Kong, 6 July 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. LO Kam Cheung Patrick, Ms. LO Yuk Yee and Mr. TSO Siu Lun Alan.