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 UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020 AND CONTINUED SUSPENSION OF TRADING

UNAUDITED CONSOLIDATED RESULTS

For the reasons explained below under the section headed "Review of Unaudited Annual Results", save for certain audit issues, the audit process for the annual results of Da Sen Holdings Group Limited (the "Company") and its subsidiaries (collectively the "Group") has been substantially completed. In the meantime, the board of directors (the "Directors") (the "Board") of the Company announces the unaudited consolidated 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:

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

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

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	**2020** **RMB'000** **(unaudited)**	2019 *RMB'000* (audited)
Assets			
Non-current assets			
Right-of-use assets		**10,579**	27,270
Property, plant and equipment		**54,813**	119,675
Investment properties		**45,878**	—
Prepayments	*12*	**—**	2,351
Deferred income tax assets		**—**	7,280
		111,270	156,576
Current assets			
Inventories	*11*	**47,228**	82,682
Trade and other receivables	*12*	**111,354**	212,426
Cash and cash equivalents		**5,763**	51,007
		164,345	346,115
Total assets		**275,615**	502,691
Equity			
Equity attributable to the shareholders of the Company			
Share capital	*13*	**8,592**	8,592
Share premium	*13*	**212,502**	212,502
Other reserves	*14*	**52,942**	52,942
(Accumulated losses)/retained earnings		**(104,765)**	130,537
Total equity		**169,271**	404,573
Liabilities			
Non-current liabilities			
Borrowings	*15*	**—**	22,736
Deferred income		**317**	342
		317	23,078

	Notes	**2020** ***RMB'000*** **(unaudited)**	2019 *RMB'000* (audited)
Current liabilities			
Trade and other payables	*16*	**40,922**	30,288
Current income tax liabilities		**7,168**	7,177
Borrowings	*15*	**57,937**	37,103
Lease liabilities		**—**	472
		106,027	75,040
Total liabilities		**106,344**	98,118
Total equity and liabilities		**275,615**	502,691

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Group is principally engaged in the manufacturing and sales of wooden products and provision of agricultural and other ancillary services. Since 1 July 2020, the management made the decision to cease the operation of the biomass wood pellets business and this business segment has been accounted for as discontinued operation in the unaudited consolidated financial statements for presentation purposes and certain comparatives for the corresponding year of 2019 have been restated to conform with the 2020 year presentation.

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.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

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 unaudited 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.

Historical cost convention

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

In the process of applying the Group's accounting policies, apart from those involving estimations, management has prepared the unaudited consolidated financial statements on the assumption that the Group will be able to operate as a going concern in the coming year, which is a critical judgement that has the most significant effect on the amounts recognised in the financial statements. The assessment of the going concern assumption involves making a judgement by the Directors, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The Directors consider that the Group has the capability to continue as a going concern and the major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(ii) Changes in accounting policy and disclosures

The following new standards and amendments to existing standards are mandatory for accounting periods beginning on or after 1 January 2020. 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:

- Conceptual Framework for Financial Reporting 2018 — Revised Conceptual Framework for Financial Reporting
- HKAS 1 and HKAS 8 (Amendments) — Definition of Material
- HKFRS 3 (Amendments) — Definition of a Business
- HKFRS 7, HKFRS 9 and HKAS 39 (Amendments) — Hedge Accounting

(iii) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

		Effective for accounting year beginning on or after
Amendment to IFRS 16	Covid-19-related Rent Concessions	1 June 2020
Amendments to IFRS 9, IAS 39, IFRS 4 and IFRS 16	Interest rate benchmark reform — Phase 2	1 January 2021
Amendments to IFRS 3	Update reference to the conceptual framework	1 January 2022
Amendments to IAS 16	Property, Plant and Equipment:	1 January 2022
Amendments to IAS 37	Proceeds before intended use	1 January 2022
Annual Improvements	Onerous contracts — costs of fulfilling a contract	1 January 2022
IFRS 17	Annual Improvements to IFRS Standards 2018–2020	1 January 2023
Amendments to IAS 1	Insurance contracts	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Classification of liabilities as current or Non-current	1 January 2023
Amendments to IAS 8	Disclosure of Accounting Policies	1 January 2023
Amendments to IFRS 10 and IAS 28	Definition of Accounting Estimates	To be determined

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(iv) Going concern

These unaudited consolidated financial statements have been prepared in conformity with the principles applicable to a going concern basis. The applicability of these principles is dependent upon continued availability of adequate finance on attaining profitable operations in future and the success of below plans and measures in view of the conditions mentioned below.

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, and as at 31 December 2020, the Group had accumulated losses of RMB146,382,000. As at 31 December 2020, the Group had current borrowings amounted to RMB57,937,000 while the Group's cash and cash equivalents balance was RMB5,763,000. As at the date of this announcement, the Company has received several writs of summons with a total statement of claim of approximately HK$5,630,000 issued in the District Court of the Hong Kong Special Administrative Region by certain 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 and 17 February 2021. As disclosed in the announcement of the Company dated 19 January 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$130,000, being the unpaid interest of the bond in the principal amount of HK$2,000,000 issued by the Company to the creditor. In respect of the bank borrowings in the PRC, RMB18,900,000 bank borrowings as at 31 December 2020 were overdue for repayment in January and February 2021.

These conditions indicate the existence of material uncertainties which may cast significant doubt over the Group's ability to continue as a going concern.

In view of such circumstances, the Directors have been undertaking several measures to improve the Group's liquidity and financial position, to refinance its operations and to restructure its debts. The Company has commenced liaison with both the PRC banks for the extension of bank loans and the creditors relating to the Creditors' Schemes. 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) whether the Group is able to obtain the agreements from the bank to extend the loans of the China subsidiaries until they are fully repaid; (ii) whether the Group is able to complete and fully execute the terms of the debt restructuring of the holding company including scheme of arrangement and open offer; (iii) whether the Group is able to increase the sales price of its plywood products and to reduce the production and raw materials costs; (iv) whether the Group can gradually rollout new business initiatives with new products of higher profit margin; (v) whether the Group can increase the recoverability of trade receivables; and (vi) whether the Group can secure additional sources of financing, to finance its short term liquidity needs from its major shareholders or banks and other financial institutions.

Should the Group fail to achieve the above-mentioned 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 value 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 effect of these adjustments has not been reflected in the consolidated 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*
	(unaudited)	(audited)
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

	Years ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
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

	Years ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Impairment loss of inventories due to flooding	**—**	8,107
Loss due to forfeiture of a land purchase	**—**	3,300
Net losses from disposal of construction in progress *(Note)*	**12,439**	—
Net losses from disposal of property, plant and equipment	**1,628**	607
Net foreign exchange losses/(gains)	**67**	(81)
Donation	**2**	—
Others	**396**	205
	14,532	12,138

5. OTHER LOSSES — NET (continued)

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

	Years ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Raw materials and consumables used	**208,060**	286,361
Provision for impairment charges for investment properties	**28,210**	—
Changes in inventories of finished goods and work-in-progress	**23,408**	13,632
Provision for inventory write-down	**13,346**	5,970
Employee benefit expenses	**12,993**	17,431
Depreciation of property, plant and equipment	**3,545**	4,162
Provision for impairment charges for property, plant and equipment	**2,491**	13,977
Taxes and levies	**1,467**	3,207
Audit fees	**1,420**	1,150
Depreciation of investment properties	**1,384**	—
Utilities	**907**	1,451
Amortisation of right-of-use assets	**520**	863
Other expenses	**6,761**	3,592
Total cost of sales, selling and distribution expenses and administrative expenses	**304,512**	351,796

7. FINANCE INCOME AND COSTS

	Years ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Finance income:		
— Interest income on bank deposits	**(13)**	(7)
Finance costs:		
— Interest expense on borrowings from banks	**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
Net finance costs	**2,200**	4,987

8. INCOME TAX EXPENSE/(CREDIT)

	Years ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Current income tax expense	**—**	—
Deferred income tax expense/(credit)	**7,280**	(6,079)
Total income tax expense/(credit) from continuing operations	**6,246**	(4,539)
Total income tax expense/(credit) from a discontinued operation	**1,034**	(1,540)
Total income tax expense/(credit)	**7,280**	(6,079)

(i) Cayman Islands profit tax

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

(ii) British Virgin Islands profits tax

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

(iii) Hong Kong profits tax

No Hong Kong profits tax has been provided, as the Group has no taxable profit earned or derived in Hong Kong. The applicable Hong Kong profit tax rate is 16.5% (2019: 16.5%) for the year.

8. INCOME TAX EXPENSE/(CREDIT) (continued)

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

CIT is provided on the assessable income of entities within the Group incorporated in the PRC. The applicable CIT tax rate is 25% (2019: 25%) for the year.

(v) PRC withholding income tax

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

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

	Years ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
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 domestic tax rates applicable to loss in the respective year	**(57,007)**	(20,415)
Tax effects of:		
— Expenses not deductible for tax purpose	**8,019**	3,353
— Unrecognised temporary differences	**27,929**	—
— Income not subject to tax	—	(1,005)
— Unrecognised tax losses	**28,339**	11,988
Tax charge/(credit)	**7,280**	(6,079)

9. DISCONTINUED OPERATIONS

Due to the impact of COVID-19 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. Management of the Group decided to shut down the business on biomass wood pellets starting from July 2020.

9. DISCONTINUED OPERATIONS (continued)

Considering that Shandong Province is rich in agricultural products resources, and there is no large-scale trading market of agricultural products in the Chengwu County, Heze City, Shandong Province, and domestic consumers are paying more attention to healthy diet, the management believes that leasing to a trading market of agricultural products is a promising business. The Group leased the plants of Dasen (Heze) to a third party for operation of trading market of agricultural products. The lease term is 19 years. In addition, Meisen (Shandong) reduced the production of products as a result of the impacts of COVID-19. Meisen (Shandong) leased idle land and idle plants to third parties. The lease terms are 19 years and 6 years respectively. As at 31 December 2020, the corresponding plants of RMB59,587,000 and land use rights of RMB15,885,000 were reclassified as investment properties.

Given the significant size of the biomass wood pellets business which was attributable to the Group and the specific risk relating to the recoverability of the trade receivables, the Group's biomass wood pellets business in Shandong province represented a separate major line of business of operations, thus the financial results of biomass wood pellets business in 2020 were presented as a discontinued operation and the financial results were restated for the year ended 31 December 2019.

The results of the discontinued operation are presented below:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Revenue	**2,952**	13,039
Cost of sales	**(3,783)**	(17,439)
Gross loss from a 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 a discontinued operation	**(22,742)**	(9,050)
Finance income	**—**	1
Finance costs	**(252)**	(499)
Finance costs — net	**(252)**	(498)
Loss before income tax from a discontinued operation	**(22,994)**	(9,548)
Income tax (expense)/credit	**(1,034)**	1,540
Loss for the year from a discontinued operation	**(24,028)**	(8,008)

9. DISCONTINUED OPERATIONS (continued)

Loss for the year from a discontinued operation includes the following:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Raw materials and consumables used	**2,387**	6,813
Provision for impairment charges for property, plant and equipment	**—**	6,465
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
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

The net cash flows incurred by the discontinued operation are as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Operating activities	**(1,591)**	(4,641)
Investing activities	**450**	(265)
Financing activities	**(394)**	(2,000)
Net cash outflow	**(1,535)**	(6,906)

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.

	Years ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Loss attributable to the shareholders		
— From continuing operations	**(211,274)**	(67,573)
— From discontinued operations	**(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 operations	**(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. INVENTORIES

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

During the years 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.

12. TRADE AND OTHER RECEIVABLES

	As at 31 December 2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables	**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
— Prepayment for property, plant and equipment	**—**	2,351
Other receivables	**26,257**	21,881
Less: allowance for impairment of other receivables	**(17,970)**	(10,795)
	111,354	214,777
Less: Prepayment-non-current	**—**	(2,351)
	111,354	212,426

12. TRADE AND OTHER RECEIVABLES (continued)

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*
	(unaudited)	(audited)
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 analyses 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.

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 dates. 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.

13. 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 (audited)	974,400	8,592	212,502	221,094
At 1 January 2020 and at 31 December 2020 (unaudited)	974,400	8,592	212,502	262,711

13. SHARE CAPITAL AND SHARE PREMIUM (continued)

Notes:

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.

14. OTHER RESERVES

	Capital reserves (a) *RMB'000*	Statutory reserves (b) *RMB'000*	Total *RMB'000*
At 1 January 2019, 31 December 2019, 1 January 2020 and at 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 foundings 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.

15. BORROWINGS

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Non-current		
Bonds (a)	**—**	22,736
Current		
Bonds 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:

According to the bond agreements with the bondholders, interests for bonds should be paid annually. The Company failed to pay all bond interests due in 2020, and triggered the default redemption clause of the bond agreements. According to the clause of the bond agreements, if any event of default occurs, e.g. the interest is not paid on time, each bondholder can independently decide to claim for all or part of repayment of the bonds. Since bondholders can unconditionally demand the company to repay the outstanding amount on the bonds, that part of the bonds which were previously classified under non-current liabilities have been reclassified as current liabilities, and the carrying amount of the bonds as at 31 December 2020 is RMB29,037,000.

The fair values of the bonds approximated their carrying amounts as at the balance sheet date.

As at 31 December 2020, the Group's bonds were repayable as follows:

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

15. BORROWINGS (continued)

(b) Short-term bank borrowings

The Group's bank borrowings were secured by land use rights of the Group 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 of the Group with net book value of RMB33,099,000 (2019: Nil) as at 31 December 2020.

As at 31 December 2020, the Group's short-term bank borrowings of RMB18,900,000 were guaranteed by Mr. Ke Mingcai together with his spouse via guarantee agreements between these individuals and banks; the short-term borrowings of RMB7,700,000 were guaranteed by Mr. Ke Mingcai together with Mr. Zhang Ayang via guarantee agreements between these individuals and the banks. The remaining short-term borrowings of RMB2,300,000 were guaranteed by Mr. Ke Mingcai; and together with Mr Cai Qiren via guarantee agreements between these individuals and the banks.

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.

The carrying amounts of the Group's borrowings from banks were denominated in RMB and approximated their fair value as at the balance sheet date.

16. TRADE AND OTHER PAYABLES

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Other taxes payable *(Note)*	**18,359**	15,804
Employee benefit payables	**8,473**	5,185
Interest payable	**2,764**	931
Advances from customers	**1,643**	926
Trade payables	**714**	834
Others	**8,969**	6,608
	40,922	30,288

(a) Trade payable

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*
	(unaudited)	(audited)
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.

16. TRADE AND OTHER PAYABLES (continued)

(b) Other taxes payable

This represented value added tax ("VAT") and 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 are subject to calculation of input VAT based on a percentage of plywood produced. As a result, during 2020 the Group's deductible input VAT 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.

17. EVENTS AFTER THE BALANCE SHEET DATE

As at 31 December 2020, the carrying amount of the Group's borrowings from banks were RMB28,900,000, of which RMB3,000,000, RMB7,000,000 and RMB8,900,000 borrowed from a PRC bank had expired on 9 January 2021, 13 January 2021 and 1 February 2021 respectively and were not repaid at the respective maturity dates. Following negotiations with the bank, verbal agreement has been reached with the bank for the extension of the tenure of the bank loans, subject to partial early repayment.

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 other land and factories 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 a novel coronavirus disease ("COVID-19") affecting many countries, including the PRC. A series of precautionary and control measures have been adopted and continued to be in place across the PRC 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 products 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 and unless market conditions improved, 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 has affected the profitability of our business in the short run and in turn further reduce 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 experienced 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 (101,519 m^3 in 2020 as compared with 112,778 m^3 in 2019), the Group has experienced sharp decrease of sales turnover (approximately RMB249.6 million in 2020 as compared with approximately RMB333.3 million in 2019). This is mainly due to the price reductions offered (average price of RMB1,715 per m^3 in 2020 as compared with RMB2,704 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 and the Company's subsidiaries were unable to distribute dividends to the Company and has led to certain complications for funds repatriation from the PRC.

As at the date of this announcement, the Company 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. As disclosed in the announcement of the Company dated 19 January 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 creditor.

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 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 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

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 and in 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 a discontinued operation 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 RMB13.3 million (2019: approximately RMB6.0 million) and impairment charges for property, plant and equipment of approximately RMB2.5 million (2019: approximately RMB14.0 million). Excluding these specific provisions, for the year ended 31 December 2020, the adjusted gross loss was approximately RMB98.0 million (2019: approximately RMB4.3 million) and gross loss margin was approximately 55.9% (2019: approximately 1.4%).

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 RMB14.5 million (2019: approximately RMB12.1 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 RMB61.4 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 RMB2.7 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 2020 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 RMB59.6 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 RMB14.5 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 RMB13.3 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 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

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 of 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 (approximately 2019: Nil), and certain guarantees provided to the banks by certain former and present directors and individuals as at 31 December 2020.

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.

FINAL DIVIDEND

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

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 OF UNAUDITED ANNUAL RESULTS

As at the date of this announcement, save for certain issues relating mainly to the discussion with the Auditor and provision of further information regarding the appropriateness of the going concern basis of preparation of the consolidated financial statements, audit work for the financial year ended 31 December 2020 has been substantially completed. The unaudited annual results contained herein have not been agreed with the Auditor as required under Rule 13.49(2) of the Rules Governing the Listing of Securities on The Stock

Exchange of Hong Kong Limited and are therefore subject to potential adjustments and finalisation pending the completion of the audit by the Auditor. The Company endeavours to publish an announcement relating to the annual results for the financial year ended 31 December 2020 (the "2020 Annual Results") which is to be agreed with the Auditor, and the material differences (if any) as compared to the unaudited annual results contained herein, as soon as practicable once the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants.

The unaudited annual results contained herein have been reviewed by the audit committee of the Company.

DELAY IN PUBLICATION OF THE 2020 ANNUAL RESULTS

Reference are made to the announcements of the Company dated 29 March 2021 and 1 April 2021 in relation to, among others, the delay in publication of the 2020 Annual Results. The Board would like to further elaborate the reasons for the delay as follows:

As disclosed in the announcement of the Company dated 29 March 2021, the Company was unable to publish the 2020 Annual Results as additional time is required by the Company to obtain further information requested by the Auditor in connection with, among others, certain details of the procedural requirements of the proposed debt restructuring of the Company and certain audit matters.

The Company proposed to implement a proposed debt restructuring (the "Proposed Restructuring") to restructure its debts by way of implementing the creditors schemes (the "Creditors Schemes") and the open offer (the "Open Offer") in order to discharge all liabilities and claims against the Company and to alleviate its cash flow pressure. Discussions between the Company and the creditors are ongoing but have taken longer than originally anticipated. Additional time is required by the Company to obtain further details of the procedural requirements of the proposed debt restructuring of the Company at the request of the Auditor as part of its audit work, and to provide the Auditor other measures to address the liquidity and going concern issue of the Group.

As the aforementioned issues require additional time to resolve, the Company is unable to finalize and publish the 2020 Annual Results at present. The Company will make further announcements to keep shareholders of the Company informed of the progress of the preparation and publication of the 2020 Annual Results as soon as practicable.

CONTINUED SUSPENSION OF TRADING

Trading in the shares of the Company ("Shares") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") has been suspended with effect from 9:00 a.m. on 1 April 2021, and is currently expected to remain suspended until the publication by the Company of an announcement containing the 2020 Annual Results which is expected to be published within

May 2021. The Company will publish further announcement(s) to keep the Shareholders and potential investors of the Company as and when appropriate should there are other material developments in publishing the audited 2020 Annual Results.

PUBLICATION OF UNAUDITED RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://www.msdscn.com/). The 2020 Annual Report of the Company containing the information required by the Listing Rules will be despatched to the Shareholders and made available on the same websites in due course.

The unaudited financial information contained herein in respect of the annual results of the Group for the year ended 31 December 2020 have not been audited and have not been agreed with the Auditor and is subject to potential adjustments and finalisation pending the completion of audit work by the Auditor. The audited 2020 Annual Results may therefore be different from the unaudited annual results as disclosed in this announcement. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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

Hong Kong, 23 April 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.