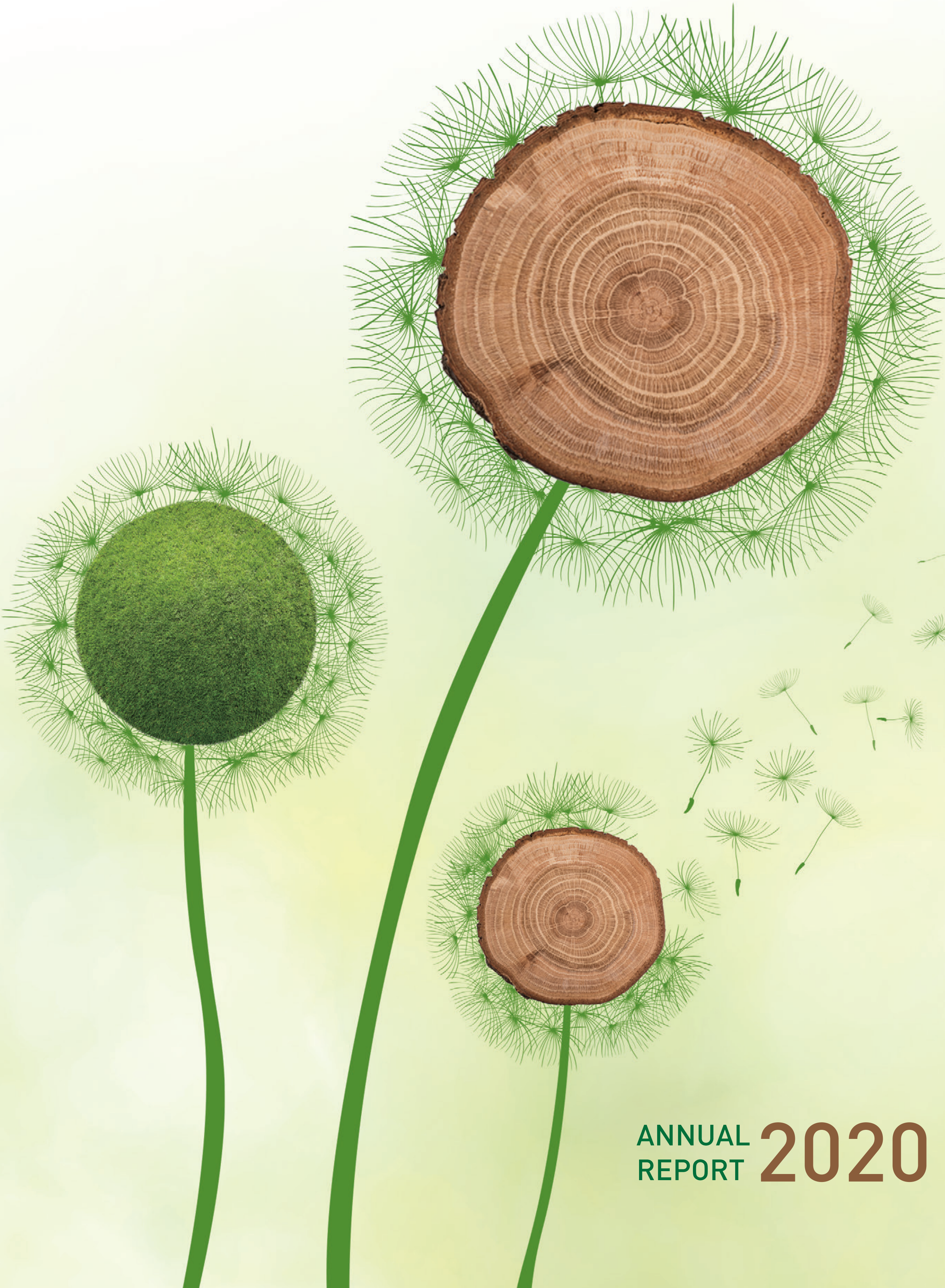
DA SEN HOLDINGS GROUP LIMITED
大森控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1580



ANNUAL REPORT 2020

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

DEFINITIONS

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

"Board"	the board of Directors
"China", "Mainland China" or "PRC"	the People's Republic of China
"Company"	Da Sen Holdings Group Limited
"Da Sen Heze Advanced Materials Technology"	Da Sen Heze Advanced Materials Technology Company Limited (菏澤大森新型材料科技有限公司), a company established in the PRC on 1 November 2017, and is our indirect wholly-owned subsidiary
"Dasen (Heze)"	Dasen (Heze) Biomass Energy Limited (大森（菏澤）生物質能源有限公司), a company established in the PRC on 1 November 2012, and is the Company's wholly-owned subsidiary
"Dasen (HK)"	Dasen (Hong Kong) Holdings Company Limited (大森（香港）控股有限公司), a company incorporated in Hong Kong on 5 July 2012, and is the Company's wholly-owned subsidiary
"Director(s)"	the director(s) of the Company
"Group", "our Group", "we", "us" or "our"	the Company and its subsidiaries or, where the context so requires in respect of the period before the Company became the holding company of the present subsidiaries, the present subsidiaries of the Company and the business carried on by such subsidiaries or (as the case may be) their predecessors
"Heroic Group"	Heroic Group Limited (雄英集團有限公司), a company incorporated in the BVI on 11 November 2013 and is the Company's wholly-owned subsidiary
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Main Board"	the stock market operated by the Stock Exchange, which excludes the GEM of the Stock Exchange and the options market
"Mei Sem (HK)"	Mei Sem (Hong Kong) Holding Co., Limited (美森（香港）控股有限公司), a company incorporated in Hong Kong on 31 December 2010, and is our wholly-owned subsidiary

"Meisen (Shandong)"	Meisen (Shandong) Wood Limited (美森（山東）木業有限公司), a company established in the PRC on 19 April 2004, and is the Company's wholly-owned subsidiary
"Prospectus"	prospectus of the Company dated 7 December 2016
"RMB"	Renminbi Yuan, the lawful currency of Mainland China
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of the Company, with a nominal value of HK$0.01 each
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	United States dollars, the lawful currency of United States of America

CORPORATE INFORMATION

BOARD

Mr. ZHANG Ayang	*(Executive Director)*
Mr. WONG Ben	*(Executive Director)*
Mr. CHAI Kaw Sing	*(Executive Director)*
Mr. SUN Yongtao	*(Executive Director)* (Appointed on 27 May 2020 as independent non-executive Director and redesignated as executive Director with effect from 26 November 2020)
Mr. WONG Wai Keung Frederick	*(Executive Director)* (Appointed on 27 May 2020 as independent non-executive Director and redesignated as executive Director with effect from 26 November 2020)
Mr. KWOK Wai Ching Harrison	*(Independent non-executive Director)* (Appointed on 26 November 2020)
Ms. LO Yuk Yee	*(Independent non-executive Director)* (Appointed on 26 November 2020)
Mr. TSO Siu Lun Alan	*(Independent non-executive Director)* (Appointed on 27 May 2020)
Mr. KE Mingcai	*(Chairman and executive Director)* (Retired on 22 May 2020)
Mr. WANG Songmao	*(Chief executive officer and executive Director)* (Resigned on 29 September 2020)
Mr. WU Shican	*(Executive Director)* (Resigned on 29 September 2020)
Mr. LIN Triomphe Zheng	*(Independent non-executive Director)* (Retired on 22 May 2020)
Mr. SHAO Wanlei	*(Independent non-executive Director)* (Retired on 22 May 2020)
Mr. WANG Yuzhao	*(Independent non-executive Director)* (Resigned on 16 October 2020)

COMPANY SECRETARY

Mr. LEUNG Wing Lun *(HKICPA)*

AUDIT COMMITTEE

Mr. KWOK Wai Ching Harrison *(Chairman)*
Ms. LO Yuk Yee
Mr. TSO Siu Lun Alan

REMUNERATION COMMITTEE

Ms. LO Yuk Yee *(Chairman)*
Mr. SUN Yongtao
Mr. TSO Siu Lun Alan

NOMINATION COMMITTEE

Mr. TSO Siu Lun Alan *(Chairman)*
Mr. KWOK Wai Ching Harrison
Ms. LO Yuk Yee

RISK MANAGEMENT COMMITTEE

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

AUTHORISED REPRESENTATIVES

(for the purpose of the Listing Rules)

Mr. WONG Ben
Mr. LEUNG Wing Lun *(HKICPA)*

EXTERNAL AUDITOR

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN MAINLAND CHINA

Economic Development Zone
Sunsi Town, Chengwu
Shandong, Mainland China

PRINCIPAL SHARE REGISTRAR

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

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
No. 183 Queen's Road East
Wanchai, Hong Kong

STOCK CODE

1580

COMPANY'S WEBSITE

http://www.msdscn.com

STATEMENT FROM THE BOARD

Dear Shareholders,

On behalf of the management of the Group, the Board is pleased to present the annual report of the Group for the year ended 31 December 2020.

RESULTS

The reported loss attributable to shareholders of the Company for the year ended 31 December 2020 was RMB235.3 million, an increase in loss of approximately 211% as compared with the reported loss of approximately RMB75.6 million for the 2019 year. This was mainly due to the full negative impact of novel coronavirus disease ("COVID-19") on our business. Basic and diluted losses per share for loss from continuing operations and for total loss (including discontinues operation) for the year ended 31 December 2020 were RMB21.68 cents (2019: 7.20 cents) and RMB24.15 cents (2019: 8.05 cents), respectively.

REVIEW AND OUTLOOK

Year 2020 was an extremely difficult year for the Group as COVID-19 has impacted us significantly. During the initial phase of the pandemic, our factories were closed with productions suspended temporarily. The Group's production capacity has resumed to a reasonable level since March 2020.

When COVID-19 spread to the Western parts of the world in the second quarter of 2020, our export-oriented customers also cut down their purchases of our plywood products and requested sufficient price discounts. The management has put in tremendous efforts to retain our important customers and provided tailor made solutions in the form of discounted prices to the customers.

Although our Group has recorded a substantial negative profit margin for the plywood products, the management has all along monitored the situation closely and has taken into considerations the necessary short-term measures to maintain the normal operations of the factories and to retain the business relationships with our important customers. While we expect the operating loss to continue in the 2021 financial year, we already see signs of recovery with the narrowing of the negative profit margin of our plywood products as a result of successful sales price increase.

In the second half of 2020, our Group has also decided to close down the biomass wood pellets operations and to lease out part of its factory as well as other parts of the plywood factory and land which are surplus to current and future needs for rental income, in order to streamline our operations, save costs and generate recurring rental income to the Group.

In terms of the outstanding debts, the Board, after considering the full impacts of COVID-19 and the latest financial position of the Group, has resolved to implement a debt restructuring plan which includes, among others, the Creditors Schemes and an Open Offer to fund the implementation of the Creditor Schemes and provide additional working capital to the Group.

Going forward, in the near term, piggybacking off the success in the initiative to raise sales prices on our plywood products in the first quarter of 2021, the management will continue to take steps to raise the selling prices and gross margins of its plywood products and implement more costs control policies and to take all necessary measures to protect our employees from the threat of COVID-19. The management plans to gradually raise the level of volume of sales in the medium term and 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.

APPRECIATION

On behalf of the Group, we would like to express our wholehearted appreciation to our business and professional partners, staffs, and management team for their remarkable contributions to the Company in this difficult period. We would also like to extend our gratitude to all our Shareholders and stakeholders for their continuing support and trust during this challenging period. Finally, we would like to wish everyone good health in 2021.

EXECUTIVE DIRECTORS

Mr. CHAI Kaw Sing (蔡高昇), aged 45, is the executive Director. Mr. Chai joined the Group in July 2019 as an executive Director. Mr. Chai has extensive experience in general management, financing arrangement and brokering services for stocks and foreign exchange products. Mr. Chai founded Blackwell Global Group (including Blackwell Global Investments Limited and its subsidiaries), a global financial and brokerage service provider, in 2010 and has been its chairman since then. Mr. Chai has been the majority shareholder and director of Blackwell Global Holdings Limited, a company listed on the Main Board of New Zealand's Exchange (stock code: BGI: NZ) since June 2017.

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

Mr. Chai is responsible for the business development of the Group.

Mr. SUN Yongtao (孫湧濤), aged 64, is the executive Director. Mr. Sun joined the Group in May 2020 as an independent non-executive Director and redesignated as the executive Director on 26 November 2020. Mr. SUN has over 30 years of experience in finance and accounting.

Mr. Sun is a senior accountant accredited by Guangdong Senior Title Evaluation Committee (廣東省高級職稱評審委員會) under Department of Finance of Guangdong Province, the PRC. Mr. SUN obtained his master degree in economics from Nankai University in 1986. From July 1993 to January 1996, he was a director and general manager of finance department of Shum Yip Investment Limited (now known as Shenzhen Investment Limited), a company listed on the Main Board of the Stock Exchange (stock code: 00604). From January 1996 to February 2002, he served as the financial controller, the deputy general manager (general affairs) and a director of Hengli Weaving (Holdings) Limited (香港恒力紡織(集團)有限公司). Mr. SUN was the deputy general manager and the financial controller of Daya Bay Nuclear Power Finance Corporation, Ltd. (大亞灣核電財務有限責任公司) from February 2002 to November 2004. Mr. SUN was the chief accountant of Travelsky Technology Limited ("Travelsky"), a company listed on the Main Board of the Stock Exchange (stock code: 0696) from November 2004 to August 2017, and was a non-executive director of Travelsky from January 2007 to March 2009.

Mr. Sun is responsible for the financial management and reporting and internal control matters of the Group's operation in PRC.

Mr. WONG Ben (黃子斌), aged 42, is the executive Director. Mr. Wong joined the Group in July 2019 as an executive Director. Mr. Wong has extensive experience in project investment and management. Mr. Wong has been working as a manager in a privately owned company in Hong Kong responsible for daily operation and exploring investment opportunities in different projects since January 2008. Prior to that, Mr. Wong worked in Stottler Henke as an AI software engineer from April 2005 to August 2007 where Mr. Wong was mainly responsible for software development, including writing proposals to clients, designing and implementing software.

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

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

Mr. Wong is responsible for the management of the Group's office in Hong Kong and also the Group's information technology system.

Mr. WONG Wai Keung Frederick (黃煒強), aged 65, is the executive Director. Mr. WONG joined the Group in May 2020 as an independent non-executive Director and redesignated as the executive Director on 26 November 2020. Mr. WONG has over 40 years of experience in accounting, auditing, corporate finance and compliance. Mr. WONG is currently an executive director of CF Energy Corp., a company listed on the TSX Venture Exchange of TMX Group Limited (stock code: CFY), an independent non-executive director of Wah Sun Handbags International Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2683), an independent non-executive director of Perfect Group International Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 3326), and an independent non-executive director of China Infrastructure & Logistics Group Ltd., a company listed on the Main Board of the Stock Exchange (stock code: 1719). Mr. WONG has also been an independent non-executive director of Burwill Holdings Limited (provisional liquidators appointed), a company listed on the Main Board of the Stock Exchange (stock code: 0024), since September 2020. Mr. WONG acted as the chief financial officer and company secretary of Asia Investment Finance Group Limited (now known as Amber Hill Financial Holdings Limited), a company listed on the Main Board of the Stock Exchange (stock code: 0033) from September 2017 to November 2017. Mr. WONG was the chief financial officer of APAC Resources Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1104), from January 2011 to July 2016 and served as a consultant to such company from August 2016 to October 2016. From January 2001 to January 2011, Mr. WONG was the chief financial officer and company secretary of CIG Yangtze Ports PLC (now known as China Infrastructure & Logistics Group Ltd.), a company initially listed on GEM of the Stock Exchange (stock code: 8233) before it was transferred to the Main Board in January 2018 (stock code: 1719), before he rejoined such company as an independent non-executive director in April 2014. Mr. WONG was an executive director of Hwa Kay Thai Holdings Limited (now known as China Solar Energy Holdings Limited), a company listed on the Main Board of the Stock Exchange (stock code: 0155) from April 1996 to March 1999.

Mr. WONG obtained a master's degree in electronic commerce from Edith Cowan University in Western Australia in February 2002 which was completed through distance learning. He has been a fellow member of The Institute of Chartered Accountants in England and Wales since December 1993 and a fellow member of Hong Kong Society of Accountants (now known as Hong Kong Institute of Certified Public Accountants) since June 1991.

Mr. Wong is responsible for the Group's financial reporting matters.

Mr. ZHANG Ayang (張啊阳), aged 45, is the executive Director responsible for sales and marketing strategy and overseeing the sales of the Group. Mr. Zhang joined the Group in December 2010 as the head of sales department. Mr. Zhang was promoted as the general manager of Dasen (Heze) in November 2014. Since November 2008, Mr. Zhang has been working at Jinjiang Qing Yang Xin Yi Material Trading Company (晉江市青陽信億建材商行), engaging in the wholesaling and retailing of wooden board, light steel keel and fireproof material.

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

Mr. Zhang is responsible for sales and marketing strategy and overseeing the operations of the Group's subsidiaries in PRC.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. KWOK Wai Ching Harrison (郭偉澄), aged 69, is an independent non-executive Director. Mr. KWOK joined the Group in November 2020 as an independent non-executive Director. Mr. KWOK has over 35 years of experience in accounting and financial management field, mainly gained from reputable multi-national corporations. Mr. KWOK was the finance director of Hanson Greater China, a subsidiary of Hanson PLC, from 1989 to 2004. Hanson PLC was a global leading construction materials group listed on the London Stock Exchange (stock code: HAN). Mr. KWOK acted as the finance director of Methanex Asia Pacific, a subsidiary of Methanex Corporation, a leading methanol producer and marketer listed on the Toronto Stock Exchange (stock code: MX) and NASDAQ (stock code: MEOH), from 2005 to 2016.

Mr. KWOK obtained a higher diploma in accountancy from Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) in 1976 and obtained a master degree in business administration from Manchester University in 2008. Mr. KWOK has been an associate member of Hong Kong Society of Accountants (now known as Hong Kong Institute of Certified Public Accountants) since 1979 and a fellow member since 1990, an associate member of the Association of Certified Accountants (now known as Association of Chartered Certified Accountants) since 1979 and a fellow member since 1984, an associate member of the Institute of Chartered Accountants in England and Wales since 2005 and an associate member of the Institute of Chartered Secretaries and Administrators since 1989.

Ms. LO Yuk Yee (勞玉儀), aged 61, is an independent non-executive Director. Ms. LO joined the Group in November 2020 as an independent non-executive Director. Ms. LO has over 25 years of experience in the banking, insurance, finance and investment fields. Ms. LO was the chairman and chief executive officer of MAXX Bioscience Holdings Limited (now known as China Grand Pharmaceutical and Healthcare Holding Limited), a company listed on the Main Board of the Stock Exchange (stock code: 512) from 2002 to 2006. Ms. LO is also the founder of MAXX Capital Finance Limited, a company primarily engaged in providing commercial finance and structured finance advice, and has been the chief executive officer since its incorporation in 1999. Ms. LO is currently the chairman, executive director and controlling shareholder of Finet Group Limited, a company listed on GEM of the Stock Exchange (stock code: 8317).

Ms. LO obtained a diploma in business administration from Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) in 1981.

Mr. TSO Siu Lun Alan, aged 37, is an independent non-executive Director. Mr. TSO joined the group in May 2020 as an independent non-executive Director. Mr. TSO is currently an independent non-executive director of Shi Shi Services Limited, a company listed on the GEM of the Stock Exchange (stock code: 8181), an independent non-executive director of OCI International Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 0329), and a responsible officer at Fenghua Asset Management Limited (CE No. BKV973), a company holding Type 4 and Type 9 licences from the Securities and Futures Commission for carrying out the regulated activities of advising on securities and asset management. Mr. TSO is the founder and director of China Mini Storage Limited ("CMS"), a company primarily engaged in the self storage business in PRC. Prior to establishing CMS, Mr. TSO worked as an investment director at the Everbright Ashmore China Real Estate Fund, a joint venture offshore real estate fund sponsored by the China Everbright Limited (stock code: 0165), a company listed on the Main Board of the Stock Exchange and the Ashmore Group plc, a company listed on the Main Market of the London Stock Exchange (stock code: ASHM), from 2008 to 2012. Previously, Mr. TSO also worked at Merrill Lynch's Global Commercial Real Estate team from 2006 to 2007, where he was principally involved in investing activities in Asian real estate. Mr. TSO also worked at the HSBC's Global Capital Markets — ABS & Structured Bonds Team from 2005 to 2006 where he was principally involved in the bank's securitisation business.

Mr. TSO graduated from University of Cambridge with a bachelor's degree in land economy, majoring in real estate finance and property law.

SENIOR MANAGEMENT

Mr. LEUNG Wing Lun (梁穎麟), aged 39, has been the company secretary of the Group since April 2019 and is responsible for the secretarial matters of the Group. Mr. Leung has over 15 years of experience in providing professional corporate services and is a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, Mr. Leung worked in Hop Fung Group Holdings Limited (stock code: 2320) from July 2004 to August 2005. He served in the Inland Revenue Department as contract assistant taxation officer in Hong Kong from September 2005 to March 2006. From March 2006 to July 2011, Mr. Leung worked as tax consultant at Thomas Lee & Partners Limited. In November 2010, Mr. Leung founded Superior Alliance Group Company Limited which provides professional corporate services. He has been acting as the director of Superior Alliance Group Company Limited since its establishment. Mr. Leung obtained a bachelor's degree in business administration majoring in accounting from the City University of Hong Kong in 2004.

Mr. Leung is currently the company secretary of Maike Tube Industry Holdings Limited (stock code: 1553) since April 2019 and has been the company secretary of Hang Yick Holdings Company Limited from May 2018 to March 2021.

During the year ended 31 December 2020, Mr. Leung has undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

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 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 (approximately RMB173.9 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 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.

Finance costs – net

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 and at fixed interest rates of approximately RMB28.9 million from banks located in China, decreasing from approximately 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. Bonds are denominated in HK$, unsecured, issued in Hong Kong with a tenure of between 1 year to 7.5 years and interest bearing at the rates of 6% to 8% per annum, payable annually. As at 31 December 2020, as a result of default, bonds outstanding of approximately RMB 29.07 million (2019: approximately RMB30.0 million) were classified as borrowings under current liabilities.

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).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

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

ADDITIONAL INFORMATION ON AUDITORS' MODIFIED OPINIONS

The Board wishes to draw the attention of the shareholders of the Company (the "Shareholders") to the section headed "Basis for Disclaimer of Opinion" as contained in the Independent Auditor's Report dated 17 May 2020 issued by the Company's auditors, PricewaterhouseCoopers, now contained in pages 44 to 45 of this annual report. On the basis set out therein, our auditors do not express an opinion on the consolidated financial statements of the Group for the year ended 31 December 2020.

As explained in the "Basis for Disclaimer of Opinion", the auditors' disclaimer of opinion was principally caused by the multiple uncertainties relating to going concern. Such uncertainties were not resolved as at the date of the unaudited results announcement of the Company dated 25 April 2021 primarily due to the delayed progression of the Creditors Scheme and Open Offer as announced by the Company on 30 November 2020 and 8 January 2021.

The Board and audit committee agreed with the views of the management and the auditors regarding the uncertainty of going concern. There is no disagreement by the Board, the management nor the audit committee with the position taken by the Company's auditors regarding the disclaimer of opinion. The Directors will continue to use their best efforts to protect and uphold the Company's best interest, including ongoing negotiation with various creditors over the debt restructuring arrangements. The Group Directors and Management will proactively resolve matters relating to disclaimer of opinion throughout the year 2021.

The 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 approximately RMB235,302,000 and reported a net operating cash outflow of approximately 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 approximately RMB169,271,000. As at 31 December 2020, the Group had current borrowings amounted to approximately RMB57,937,000 while the Group's cash and cash equivalents balance was approximately RMB5,763,000. As at the date of this report, 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 approximately 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, approximately 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 complete and fully execute the terms of the open offer;

(note: On 17 May 2021, the Board resolved to modify the Open Offer which is not conditional upon the completion of the Creditors Scheme, 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) 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 subsidiaries, and the remaining HK$1 million will be for working capital of the Group.) The directors of the Company expect that the new Open Offer will be completed in June 2021.

(ii) whether the Group is able to complete and fully execute the terms of the debt restructuring of the holding company;

(note: Based on the best estimate of the Directors, the Creditors Schemes will be completed in Quarter 3 of 2021 and the Proposed Restructuring will be completed by end of 2021.)

(iii) whether the Group is able to obtain the agreements from the banks to extend the loans of the China subsidiaries until they are fully repaid;

(note: 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) whether the Group can secure additional sources of financing, to finance its short term liquidity needs from its major shareholders, or successfully and timely raise additional cash through the potential disposal of certain assets of the Group;

(v) 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.

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.

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in Note 14 to the financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including a fair review of the Group's business, financial key performance indicators, a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the *Management Discussion and Analysis* section set out on pages 12 to 22 and the audited financial statements set out on pages 47 to 125 of this annual report. This discussion forms part of this report of the Directors.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2020 and the Group's consolidated balance sheet at that date are set out in the financial statements on pages 48 to 49 of this annual report.

The Directors do not recommend the payment of any dividends for the year ended 31 December 2020 (2019: Nil).

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

The Directors would like to provide information regarding the detailed breakdown and description of the actual use of net proceeds from the Company's initial public offering as below:

	Allocation of the IPO Proceeds RMB'000	Actual amount of the IPO Proceeds utilised up to 31 December 2018 RMB'000	Actual amount of the IPO Proceeds utilised up to 31 December 2019 RMB'000	Actual amount of the IPO Proceeds utilised up to 31 December 2020 RMB'000	Unutilised IPO Proceeds from IPO RMB'000
Production lines for plywood products and biomass wood pellets	66,800	(53,287)	(53,336) *(Note)*	(66,800) *(Note)*	–
Expansion of sales and marketing network	16,400	(5,325)	(5,325)	(16,400)	–
General working capital	11,000	(11,000)	(11,000)	(11,000)	–
New production facilities	15,800	(15,800)	(15,800)	(15,800)	–
Total	**110,000**	**(85,412)**	**(85,461)**	**(110,000)**	**–**

Note:

As of 31 December 2019, the Company has utilised RMB53.3 million out of the IPO Proceeds for its new production lines for plywood products and biomass wood pellets. The proceeds have been used in the following manner: (i) approximately RMB2.1 million was used to acquire the land use rights for its plywood production facilities; (ii) approximately RMB1.2 million was used for the purpose of renovating and developing its plywood production facilities; (iii) approximately RMB37.0 million was used for the installation of the new plywood production line; (iv) approximately RMB0.2 million was used to acquire the land use right for a piece of land ("**Target Land A**") for its biomass wood pellets production facilities; and (v) approximately RMB12.8 million was used for the installation of the biomass wood pellets production line on Target Land A.

As disclosed in the 2019 Annual Report, the Group encountered delay in securing a new piece of land ("**Target Land B**") for construction of the new production plant for its biomass products. The Company was given to understand that the delay in land acquisition for the new production plant was mainly attributed to the prolonged approval process of the state owned land use right by the Ministry of Natural Resources of the PRC ("**MoNR**"). As at the date of this report, the Company has neither entered into any agreements with the local government for the Target Land B acquisition nor commenced construction on the relevant land. Due to a sharp decrease in market demand for the biomass products, the Company decided not to proceed with its original plan in 2019 and in 2020, the management decided to apply the remaining IPO proceeds to convert the existing biomass factory building instead.

The Group experienced a decrease in profit margin in the second half of 2019 in both its plywood and biomass business. As at 31 December 2019, approximately RMB85.5 million of the IPO Proceeds were used in accordance with the intended purposes as previously disclosed, the Group was working with the local government and other parties till the end of 2019 in identifying suitable opportunities to apply the Unutilised IPO proceeds, including but not limited to identifying suitable locations to set up the Group's branch offices with a view to improving the operations of the Group.

The Group has gradually downsized its business operations for biomass wood-pellets since 2019 and in response to the deteriorating market conditions brought about by the COVID-19 pandemic and it has decided to convert its existing plants and machinery for the purpose of leasing out as an interim solution to mitigate the Group's continued operating loss in July 2020. Having considered, among other things, (i) the continued operating loss of the Group amid the COVID-19 pandemic, in particular the Group's biomass wood pellets business; (ii) the existing biomass plants can be better utilised by converting into facilities for lease which can in return generate stable income stream; and (iii) the renovation of existing factories of the plywood business to enhance its sales and marketing network and for the purpose of acquiring raw materials, the Group is of the view that the aforementioned change in use of proceeds is in the interest of the Company and its shareholders as a whole amid the COVID-19 pandemic. The Board is also of the view that the leasing out of its converted facilities of the biomass business will not have material adverse effect on the Company's existing business operations.

As at 31 December 2020, the Company has utilised (i) approximately RMB13.5 million from the IPO Proceeds to convert its existing biomass plants into facilities for lease; and (ii) approximately RMB11.1 million from the IPO Proceeds to renovate parts of the Group's existing plywood factory as a sales and marketing centre to showcase the Company's products. The Group has entered into an agreement to lease out its converted facilities to an independent third party. As the Group has utilised all of the IPO Proceeds as at 31 December 2020, the Board will reconsider its options and continue to explore suitable locations to potentially set up a branch office of the Group in the future as and when financial resources allow.

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

The Directors would like to provide information regarding the detailed breakdown and description of the actual use of net proceeds from the Company's 2017 Placing as below:

	Allocation of Proceeds from 2017 Placing RMB'000	Actual amount of the Proceeds from 2017 Placing utilised up to 31 December 2018 RMB'000	Actual amount of the Proceeds from 2017 Placing utilised up to 31 December 2019 RMB'000	Actual amount of the Proceeds from 2017 Placing unutilised up to 31 December 2020 RMB'000	Unutilised Proceeds from 2017 Placing
Construction of new production facilities	75,600	(26,800)	(44,300) *(Note)*	(44,300)	–
General working capital	–	–	–	(31,300)	–
	75,600	(26,800)	(44,300) *(Note)*	(75,600)	

Note:

As at 31 December 2019, approximately RMB44.3 million of the Proceeds from 2017 Placing were used for construction of new production facilities. The breakdown of use of such proceeds is as follows:

	Actual use of Proceeds from 2017 Placing as at 31 December 2019 (RMB million)
– Acquisition of land use right of two pieces of land	3.3
– Construction of new production facilities	21.6
– Purchase of raw materials for new production facilities	19.4
Total:	**44.3**

Impairment provisions were subsequently made to the relevant construction of new production facilities, details of which are disclosed below. The followings are made based on the best knowledge and belief of the current members of the Board having made reasonable enquires with the relevant former Directors and key management personnel.

During the year ended 31 December 2017

On 17 October 2017, a cooperation agreement (the "Cooperation Agreement") was entered into between the Group and the Goucunji town people government (the "Goucunji Government"), regarding the proposed acquisition of land use right for certain land parcels with an aggregate floor area of approximately 124 mu before 30 June 2018. Pursuant to the Cooperation Agreement, the Goucunji Government shall be responsible for, among other things, engaging contractor to construct wall and two factories on the relevant lands for and on behalf of the Group in accordance with the proposed construction schedule (the "Entrusted Construction"). The total cost for the Entrusted Construction under the Cooperation Agreement was approximately RMB38.7 million and the Entrusted Construction was anticipated to be completed by 30 June 2018. The new production facility was intended to expand the Group's production capabilities and for the manufacturing of wood veneer.

Having considered that (i) the then business and development needs of the Group justifying the expansion of production capabilities; (ii) the then imminent business needs to expand the Group's production capacity to capture the anticipated industry growth as forecasted by the independent industry expert in the Prospectus; (iii) the commitment and assistance on the part of the Goucunji Government with the Entrusted Construction under the Cooperation Agreement to ensure timely commencement of operation of the new production facilities; (iv) lower counterparty risk on the part of the Goucunji Government due to its governmental background; (v) the then reasonable belief that there would not be much legal impediment for completion of the Acquisition; (vi) several site visits were made by the certain former executive Directors to ensure the conditions, suitability and development feasibility and potential of the land parcels; and (vii) the Entrusted Construction would expedite the construction process, thereby enabling the Group to capture and generate additional revenue as soon as possible upon completion of the acquisition, the then Board considered commencing the Entrusted Construction ahead of the completion of the acquisition of relevant land to be in the best interests of the Company and its shareholders as a whole.

In December 2017, at the request of the Goucunji Government, the Group made an upfront payment for the Entrusted Construction to the Goucunji Government and approximately RMB21.6 million was used for the construction of the new production facility (of which approximately RMB21.3 million was initially recorded as construction in progress and approximately RMB0.35 million was recorded in prepayments). The Company was given to understand that the Entrusted Construction work had commenced, as arranged by the Goucunji Government, immediately after the payment. During the relevant period, the then Board considered the counterparty risk of the Goucunji Government to be relatively low. As such the Group continued to follow up with the MoNR to expedite the approval process of the state-owned land use certificate.

During the year ended 31 December 2018

As at 30 June 2018, the MoNR was in the process of approving the Group's application for the grant of use for the land for the construction of the new production facilities. Due to an unexpected delay on the part of the relevant governmental bodies involved, the public listing-for-sale process of the land parcels, which was originally scheduled in December 2017, was delayed to 27 November 2018 (the "Delay Period"), beyond the timetable as initially anticipated. As disclosed in the 2019 Annual Report, the Group entered into a land purchase agreement with Chengwu County Natural Resources and Planning Bureau ("Natural Resources and Planning Bureau") for the acquisition of the land use right of two pieces of land (the "Target Land C and D") at a consideration of approximately RMB6.6 million (the "Acquisition") on 24 December 2018. Deposits in the aggregate amount of RMB3.3 million (the "Deposits") were paid by the Group as partial payment of the total consideration. During the construction period, the Group also commenced the procurement of raw materials for the new production facility and as at 31 December 2019, approximately RMB19.4 million of the Proceeds from 2017 Placing was applied towards the purchase of such raw materials to facilitate the initiation stage of the new production facility. These raw materials were classified as inventory. As advised by the then directors of the Company, the original intention was to ensure the new production facility would be able to commence production with the raw materials purchased once the construction was completed.

During the year ended 31 December 2019

Due to changes in market sentiment and deteriorating market performance after the Company entered into the land purchase agreement with Natural Resources and Planning Bureau for the acquisition of the land use right of the Target Land C and D, the Company was of the view that (i) the deteriorated performance of the Group and the market could no longer justify the scale of expansion of production capacity as initially anticipated; (ii) the Group may not be able to meet its initial investment and performance targets for the new wood veneer business given the circumstances; (iii) the remaining consideration of RMB3.3 million for the Acquisition and the continued investment for the remaining Entrusted Construction would constitute a heavy financial burden on the Group while the breakeven/payback period could not be reasonably estimated given the then market performance; (iv) the forfeiture of Deposits of RMB3.3 million as a result of the termination of the Acquisition was a sum bearable by the Group; and (v) the possible recoupment, in part or in full, of the payments made by the Group for the Entrusted Construction may potentially reduce the monetary loss of the Group should the Acquisition be terminated. Given the above, the Company was of the view that no further financial resources should be further applied towards the Acquisition and the Entrusted Construction given the change in circumstances and market performance and accordingly the Group elected not to proceed with the completion of the Acquisition and the ownership of the land was not transferred to the Group.

As such, the Entrusted Construction costs were reclassified to other receivable as at 31 December 2019 after negotiations were held between the Group and the government relating to the recoupment of the construction costs and prepayments previously made by the Group. A provision of approximately RMB10.8 million was made against the receivable balance to cover the potential unrecoverable amount. All raw materials previously procured for intended production use in the new production facilities were subsequently fully utilised by the Group in its other production plants and processes.

Pursuant to the termination notices dated 26 June 2019 from the Natural Resources and Planning Bureau, the Acquisition was unilaterally terminated. As a result of the failure on the part of the Group to pay the remaining consideration in accordance with the relevant land use right transfer agreement, deposits paid by the Group were forfeited by the Natural Resources and Planning Bureau.

The Cooperation Agreement was terminated by mutual agreement after discussions between the Company and the Goucunji Government in 2019. The Goucunji Government was of the view that the factories which have been built may be better utilised by other local businesses and the then Board considered it to be in the best interests of the Company to focus on its existing operations rather than committing to a new business which it will anticipate to have serious operating issues given the circumstances. The Group has since been negotiating with the Goucunji Government to explore the feasibility of recouping such amount and it is expected that the Group could recoup part of, if not all, the Entrusted Construction fee paid by the Group from the Goucunji Government.

During the year ended 31 December 2020

As at 31 December 2020, approximately RMB0.95 million was refunded to the Group by the Goucunji Government. The negotiations and recoupment have been protracted due to the outbreak of COVID-19. The Company will continue to engage in negotiations with the relevant governmental bodies and is also seeking advices from its professional advisors to explore the possible appropriate course of action to minimise losses for the purpose of protecting the interests of the Company and its shareholders as a whole. An internal control consultant has also been engaged by the Company to review and strengthen the overall internal control system of the Group. As part of its review, the internal control consultant conducted an assessment on the above transaction and follow-up measures and will make recommendations where appropriate. In the event that there's no substantial progress from the negotiations with the relevant government bodies and the recoupment of the Entrusted Construction fees, the Company will seek further legal advices to protect its legal rights pursuant to the Cooperation Agreement.

As at 31 December 2020, the pandemic is not under control and continues to have an adverse effect on the Group's business operations. As COVID-19 pandemic continues to adversely affect the Group, the Board is of the view that a more prudent policy should be adopted to maintain sufficient working capital and cash flow liquidity for its business operations during these unprecedented economic climate. Having considered the interests of the Company and its Shareholders as a whole and in light of current market conditions and the Group's business needs, the Board has reallocated the Unutilised Proceeds of RMB31.3 million from 2017 Placing as general working capital of the Group, and mainly for the purchase of raw materials.

The Board is of the view that the reallocation of the Unutilised Proceeds from 2017 Placing will provide more flexibility for the Group to manage its assets and liabilities and is favourable to the Group's sustainability and long term business development. The Board confirms that there is no material change in the business nature of the Group and considered that the proposed change in use of the Unutilised Proceeds from 2017 Placing will not have any material adverse impact on the operations of the Group and is in the best interests of the Company and its shareholders as a whole.

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

The Directors would like to provide information regarding the detailed breakdown and description of the actual use of net proceeds from the Company's 2019 Placing as below:

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

As of 31 December 2020, the Proceeds from 2019 Placing was fully utilised in accordance with the intended purposes previously disclosed and there was no material change in the intended use of such proceeds.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 126 of this annual report. This summary does not form part of the Group's audited financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries, purchased, redeemed or sold any of the Company's listed securities during the year.

PRE-EMPTIVE RIGHTS

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

The Directors are not aware of any tax relief available to shareholders by reason of their holding of the Company's securities.

DISTRIBUTABLE RESERVES

At 31 December 2020, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB212,502,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers and the largest customer accounted for approximately 40.8% and 15.3% respectively of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

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

DIRECTORS

The Directors during the year were:

Executive Directors:

Mr. CHAI Kaw Sing
Mr. SUN Yongtao *(Note)*
Mr. WONG Ben
Mr. WONG Wai Keung Frederick *(Note)*
Mr. ZHANG Ayang
Mr. KE Mingcai *(Chairman)* (Retired on 22 May 2020)
Mr. WANG Songmao *(Chief executive officer)* (Resigned on 29 September 2020)
Mr. WU Shican (Resigned on 29 September 2020)

Independent non-executive Directors:

Mr. KWOK Wai Ching Harrison (Appointed on 26 November 2020)
Ms. LO Yuk Yee (Appointed on 26 November 2020)
Mr. TSO Siu Lun Alan (Appointed on 27 May 2020)
Mr. LIN Triomphe Zheng (Retired on 22 May 2020)
Mr. SHAO Wanlei (Retired on 22 May 2020)
Mr. WANG Yuzhao (Resigned on 16 October 2020)

Note: Mr. SUN Yongtao and Mr. WONG Wai Keung Frederick were appointed as independent non-executive Director on 27 May 2020 and were redesignated as executive Director on 26 November 2020.

In accordance with articles 84(1) and 84(2) of the articles of association of the Company, Mr. KWOK Wai Ching Harrison, Ms. LO Yuk Yee, Mr. SUN Yongtao, Mr. TSO Siu Lun Alan, Mr. WONG Wai Keung Frederick and Mr. ZHANG Ayang will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive Directors are appointed for a period of three years.

The Company has received annual confirmations of independence from Mr. KWOK Wai Ching Harrison, Ms. LO Yuk Yee, and Mr. TSO Siu Lun Alan, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 8 to 11 of this annual report.

DIRECTORS' SERVICE CONTRACTS

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

DEED OF NON-COMPETITION

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

The independent non-executive Directors have reviewed compliance by the Covenantors and confirm that based on confirmations and information provided by each of the Covenantors, they were in compliance with the Deed of Non-Competition during the year ended 31 December 2020.

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 statistic shall be set out in the Environmental, Social and Governance Report which will be released in due course.

DIRECTORS' REMUNERATION

During the year ended 31 December 2020, the Board has reviewed the remuneration of all Directors in response to the impact from COVID-19 on the Group's financial performance. Accordingly, adjustments have been made on the remuneration level of each Director, which have been approved by the Company's remuneration committee and the Board. The new annual remuneration level for each Director for the year ended 31 December 2021 is as follows:

	HK$
Mr. CHAI Kaw Sing	360,000
Mr. SUN Yongtao	360,000
Mr. WONG Ben	240,000
Mr. WONG Wai Keung Frederick	720,000
Mr. ZHANG Ayang	396,000
Mr. KWOK Wai Ching Harrison	180,000
Ms. LO Yuk Yee	180,000
Mr. TSO Siu Lun Alan	180,000

PERMITTED INDEMNITY PROVISION

During the year ended 31 December 2020, a permitted indemnity provision as defined in the Hong Kong Companies Ordinance was in force for the benefits of all Directors.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of the Company's subsidiaries was a party during the year ended 31 December 2020.

CONNECTED TRANSACTIONS

All of the Group's related party transactions for the year ended 31 December 2020 did not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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

As at 31 December 2020, the interests and short positions of the Directors and the Company's chief executive in the share capital and underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions in ordinary Shares:

	Number of Shares held, capacity and nature of interest			
Name of director	Directly beneficially owned	Through spouse or minor children	Total	Percentage of the Company's share capital
Mr. ZHANG Ayang *(Note 1)*	–	299,783,000	299,783,000	30.77%
Mr. CHAI Kaw Sing	57,200,000	16,300,000	73,500,000	7.55%

Note:

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

Save as disclosed above, as at 31 December 2020, none of the Directors and the Company's chief executive had registered an interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Shareholders, and any non-controlling shareholder in the Company's subsidiaries. The Scheme became effective on 19 December 2016 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

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

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

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

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

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

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

Since adoption of the Scheme, no options have been granted.

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

At 31 December 2020, the following interests and short positions of 5% or more of the share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in ordinary Shares:

	Number of Shares held, capacity and nature of interest			
Name	Directly beneficially owned	Interests in persons acting in concert *(Note 1)*	Total	Percentage of the Company's share capital
Mr. WONG Tseng Hon	221,405,000	–	221,405,000	22.72%
Mr. KE Mingcai	232,380,800	67,403,000	299,783,800	30.77%
Mr. WANG Songmao	25,291,000	274,492,800	299,783,800	30.77%
Mr. WU Shican	12,300,000	287,483,800	299,783,800	30.77%
Mr. LIN Qingxiong	100,000	299,683,800	299,783,800	30.77%
Ms. WU Haiyan	29,712,000	270,071,800	299,783,800	30.77%

Note:

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

Save as disclosed above, as at 31 December 2020, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures" above, had registered an interest or short position in the Shares or underlying Shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Details of the Group's environmental policies and performance shall be disclosed in the Environmental, Social and Governance Report which will be released in due course.

SIGNIFICANT EVENTS AFFECTING THE GROUP AFTER THE REPORTING PERIOD

Details of the significant events of the Group subsequent to the end of the reporting period are set out in note 33 to the consolidated financial statements of this annual report. Save as disclosed above, the Board is not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2020 and up to the date of this report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

PricewaterhouseCoopers will retire and, being eligible, offer themselves for reappointment. A resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held in Hong Kong on Friday, 25 June 2021. The notice of the annual general meeting will be issued and despatched in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 22 June 2021 to Friday, 25 June 2021, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the annual general meeting. In order to be entitled to attend and vote at the annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with Computershare Hong Kong Investor Services Limited, the Company's Hong Kong branch share registrar, at Shops 1712–1716, 17th Floor, Hopewell Centre, No. 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Monday, 21 June 2021.

ON BEHALF OF THE BOARD

Frederick Wong
Executive Director

Hong Kong
17 May 2021

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the applicable code provisions in the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "CG Code") throughout the year ended 31 December 2020.

BOARD OF DIRECTORS

Board composition

The Board currently comprises eight Directors, including five executive Directors and three independent non-executive Directors. As at 31 December 2020 and as at the date of this report, the Board comprises the followings Directors:

Executive Directors

Mr. CHAI Kaw Sing
Mr. SUN Yongtao
Mr. WONG Ben
Mr. WONG Wai Keung Frederick
Mr. ZHANG Ayang

Independent non-executive Directors

Mr. KWOK Wai Ching Harrison
Ms. LO Yuk Yee
Mr. TSO Siu Lun Alan

There has been an absence of the chairman of the Board since 22 May 2020 following the retirement of Mr. KE Mingcai, the former chairman of the Board. Given that the Group has been going through the process of debt restructuring, at this stage, it was difficult for the Company to source an appropriate candidate for the role of the chairman of the Board. The Company will continue with its search for the appropriate candidate and will advise shareholders of the Company once a new chairman has been appointed.

Independence of the independent non-executive Directors

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

Continuous professional development

During the year ended 31 December 2020, all Directors participated in continuous professional development by either attending external seminars and conferences, or reading materials relating to corporate governance practices, directors' duty and the Listing Rules.

The Directors confirmed that they have complied with the Code Provision A6.5 of the CG Code on Directors' training. All Directors have participated in continuous professional development by the following means to develop and refresh their knowledge during the year under review:

Name of Directors	Training received
Mr. CHAI Kaw Sing	Reading materials/attending training course
Mr. SUN Yongtao	Reading materials/attending training course
Mr. WONG Ben	Reading materials/attending training course
Mr. WONG Wai Keung Frederick	Reading materials/attending training course
Mr. ZHANG Ayang	Reading materials/attending training course
Mr. KWOK Wai Ching Harrison	Reading materials/attending training course
Ms. LO Yuk Yee	Reading materials/attending training course
Mr. TSO Siu Lun Alan	Reading materials/attending training course

APPOINTMENT OF DIRECTORS

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

Roles and responsibilities

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

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

Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding Directors' securities transactions.

Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the standards set out in the Model Code throughout the year ended 31 December 2020.

BOARD COMMITTEES

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

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

Audit committee

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

The audit committee is currently chaired by Mr. KWOK Wai Ching Harrison and the other members of the audit committee are Ms. LO Yuk Yee and Mr. TSO Siu Lun Alan. All members of the audit committee are independent non-executive Directors.

The work performed by the audit committee during the year ended 31 December 2020 comprises the following:

- reviewing the annual results and the annual report of the Group for the year ended 31 December 2019;
- reviewing the interim results and the interim report of the Group for the six months ended 30 June 2020;
- assessing the effectiveness of the Group's internal audit function;
- making recommendations to the Board on reappointment of the Company's external auditor;
- approving the remuneration and terms of engagement of the Company's external auditor;
- reviewing and monitoring the independence of the Company's external auditor, objectivity and the effectiveness of the audit process;
- reviewing the Group's financial control system; and
- reviewing the Group's accounting policies and practices.

Remuneration committee

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

The remuneration committee is currently chaired by Ms. LO Yuk Yee and the other members of the remuneration committee are Mr. SUN Yongtao and Mr. TSO Siu Lun Alan. The majority of the remuneration committee members are independent non-executive Directors. Ms. LO Yuk Yee and Mr. TSO Siu Lun Alan are independent non-executive Directors and Mr. SUN Yongtao is an executive Director.

The work performed by the remuneration committee during the year ended 31 December 2020 comprises the following:

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

Nomination committee

The nomination committee is mainly responsible for the following:

- reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships with due regard to the benefits of diversity in the Board with reference to the Board diversity policy;
- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future, together with the Board, as appropriate;
- assessing the independence of independent non-executive Directors in accordance with the provisions of the Listing Rules and other relevant laws, rules and regulations;
- reviewing the Board diversity policy, developing and reviewing measurable objectives for implementing the Board diversity policy and monitoring the progress on achieving these objectives; and
- where the Board proposes a resolution to elect an individual as an independent non-executive Director at the general meeting, setting out in the circular to Shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe he should be elected and the reasons why they consider him to be independent.

The nomination committee is currently chaired by Mr. TSO Siu Lun Alan and other members of the nomination committee are Mr. KWOK Wai Ching Harrison and Ms. LO Yuk Yee. All members of the nomination committee are independent non-executive Directors.

The work performed by the nomination committee during the year ended 31 December 2020 included reviewing the policy for the nomination of Directors.

Risk management committee

The risk management committee is mainly responsible for the following:

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

The risk management committee is currently chaired by Mr. ZHANG Ayang and the other members of the risk management committee are Mr. SUN Yongtao and Mr. WONG Wai Keung Frederick. All members of the risk management committee are executive Directors.

The work performed by the risk management committee during the year ended 31 December 2020 included reviewing the Group's risk management and internal control systems.

Board, Board committee meetings and general meetings

The attendance of each Director for the Board meetings, Board committee meetings and general meetings held during the year ended 31 December 2020 is set out in the following table:

	Meetings attended/meetings eligible to attend					
Directors	Board	Audit committee	Remuneration committee	Nomination committee	Risk management committee	General meeting
Executive Directors						
Mr. CHAI Kaw Sing	11/11	N/A	N/A	N/A	N/A	1/1
Mr. SUN Yongtao *(Note)*	7/7	1/1	1/1	1/1	N/A	N/A
Mr. WONG Ben	11/11	N/A	N/A	N/A	N/A	1/1
Mr, WONG Wai Keung Frederick *(Note)*	7/7	1/1	1/1	1/1	N/A	N/A
Mr. ZHANG Ayang	10/11	N/A	N/A	N/A	1/1	1/1
Mr. KE Mingcai *(retired on 22 May 2020)*	3/3	N/A	N/A	1/1	N/A	0/1
Mr. WANG Songmao *(resigned on 29 September 2020)*	8/8	N/A	N/A	N/A	N/A	1/1
Mr. WU Shican *(resigned on 29 September 2020)*	8/8	N/A	N/A	N/A	1/1	1/1
Independent non-executive Directors						
Mr. KWOK Wai Ching Harrison *(appointed on 26 November 2020)*	1/1	N/A	N/A	N/A	N/A	N/A
Ms. LO Yuk Yee *(appointed on 26 November 2020)*	1/1	N/A	N/A	N/A	N/A	N/A
Mr. TSO Siu Lun Alan *(appointed on 27 May 2020)*	7/7	2/2	N/A	N/A	N/A	N/A
Mr. LIN Triomphe Zheng *(retired on 22 May 2020)*	2/3	2/2	1/1	N/A	1/1	1/1
Mr. SHAO Wanlei *(retired on 22 May 2020)*	3/3	2/2	1/1	1/1	N/A	1/1
Mr. WANG Yuzhao *(resigned on 16 October 2020)*	7/8	2/2	2/2	2/2	N/A	1/1

Note: Mr. SUN Yongtao and Mr. WONG Wai Keung Frederick were appointed as Independent non-executive Directors on 27 May 2020 and were redesignated as Executive Directors on 26 November 2020.

Remuneration paid to the senior management by band

Pursuant to code provision B.1.5 of the Corporate Governance Code, the remuneration paid to the senior management by band for the year ended 31 December 2020 is set out below:

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

Details of remuneration of the Directors and the five highest paid individuals are set out in notes 32 to the financial statement, respectively.

AUDITORS' REMUNERATION

PricewaterhouseCoopers has been appointed as the auditors of the Company in respect of the audit of the financial statements of the Company for the year ended 31 December 2020. No non-audit services have been provided by PricewaterhouseCoopers to the Group during the year ended 31 December 2020.

An analysis of the fees paid or payable to PricewaterhouseCoopers in relation to services rendered to the Company for the year ended 31 December 2020 is as follows:

	RMB'000
Audit services	1.920
Non-audit services	–
	1.920

SHAREHOLDERS' RIGHTS

Shareholders can at any time raise enquiries to the Board. The enquiries must be in writing with contact information of the Shareholder(s) and deposited at the principal place of business of the Company in Hong Kong at Room 2703, 27th Floor, K. Wah Centre, No. 191 Java Road, North Point, Hong Kong for the attention of the company secretary of the Company.

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

CONSTITUTIONAL DOCUMENTS

There is no significant changes in the constitutional documents of the Company during the year ended 31 December 2020.

ANNUAL REPORTING

Directors' responsibilities

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

Auditors' responsibilities

The reporting responsibilities of the Company's auditors with regard to the consolidated financial statements of the Group are set out on page 46 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

The Board confirms that a review of the risk management and internal control systems of the Group for the year ended 31 December 2020 has been conducted by an external service provider. There has been suggestions for improvement on the Group's internal control systems by the external service provider and the Group has taken and will continue to take further follow-up actions in response to those suggestions.

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

羅兵咸永道

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

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") set out on pages 47 to 125, 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

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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.

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

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

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

The audit committee is responsible for overseeing the Group's financial reporting process.

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

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with International Standards on Auditing and to issue an auditor's report. We report solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. However, because of the matters 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 due to the potential interaction of the multiple uncertainties and their possible cumulative effect on the consolidated financial statements.

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 17 May 2021

	Notes	2020 RMB'000	2019 (Restated) RMB'000
Continuing operations			
Revenue	5	**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	3.1(b), 20	**(61,864)**	(11,404)
Other income	8	**2,799**	2,710
Other losses – net	9	**(14,532)**	(12,138)
Operating loss from continuing operations		**(202,828)**	(67,125)
Finance income	10	**13**	7
Finance costs	10	**(2,213)**	(4,994)
Finance costs – net	10	**(2,200)**	(4,987)
Loss before income tax from continuing operations		**(205,028)**	(72,112)
Income tax (expense)/credit	11	**(6,246)**	4,539
Loss for the year from continuing operations		**(211,274)**	(67,573)
Discontinued operation			
Loss for the year from discontinued operation	12	**(24,028)**	(8,008)
Total loss and comprehensive loss for the year and attributable to the shareholders of the Company		**(235,302)**	(75,581)
Loss 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)	13	**(21.68)**	(7.20)
Loss per share for total loss attributable to the shareholders of the Company during the year			
– Basic and diluted (expressed in RMB cents per share)	13	**(24.15)**	(8.05)

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

	Notes	2020 RMB'000	2019 RMB'000
ASSETS			
Non-current assets			
Right-of-use assets	15	**10,579**	27,270
Property, plant and equipment	16	**54,813**	119,675
Investment properties	17	**45,878**	–
Prepayments	20	**–**	2,351
Deferred income tax assets	27	**–**	7,280
Total non-current assets		**111,270**	156,576
Current assets			
Inventories	18	**47,228**	82,682
Trade and other receivables	20	**111,354**	212,426
Cash and cash equivalents	21	**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	22	**8,592**	8,592
Share premium	22	**212,502**	212,502
Other reserves	23	**52,942**	52,942
(Accumulated losses)/retained earnings		**(104,765)**	130,537
Total equity		**169,271**	404,573

	Notes	2020 RMB'000	2019 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	24	–	22,736
Deferred income	26	317	342
Total non-current liabilities		317	23,078
Current liabilities			
Trade and other payables	25	40,922	30,288
Current income tax liabilities		7,168	7,177
Borrowings	24	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

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

The consolidated financial statements on pages 47 to 125 were approved by the Board of Directors on 17 May 2021 and were signed on its behalf.

CHAI Kaw Sing
Executive director

WONG Wai Keung Frederick
Executive director

	Equity attributable to shareholders of the Company				
	Share capital (Note 20) RMB'000	Share premium (Note 20) RMB'000	Other reserves (Note 21) RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total equity RMB'000
Balance at 1 January 2019	7,906	185,321	52,942	206,118	452,287
Comprehensive income					
Loss for the year	–	–	–	(75,581)	(75,581)
Transactions with the shareholders					
Placing of new shares (Note 22)	686	27,181	–	–	27,867
Balance at 31 December 2019	8,592	212,502	52,942	130,537	404,573
Comprehensive income					
Loss for the year	–	–	–	(235,302)	(235,302)
Balance at 31 December 2020	8,592	212,502	52,942	(104,765)	169,271

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

	Notes	2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Continuing operations			
Cash used in operations	28(a)	**(26,268)**	(1,153)
Interest received		**13**	7
Interest paid		**(1,618)**	(3,554)
Income tax paid		**(9)**	(1,097)
		(27,882)	(5,797)
Discontinued operation		**(1,591)**	(4,641)
Net cash used in operating activities		**(29,473)**	(10,438)
Cash flows from investing activities			
Continuing operations			
Purchases of property, plant and equipment		**(16,061)**	(2,913)
Purchase of land use rights		**–**	(610)
Proceeds from disposal of property, plant and equipment	28(b)	**240**	238
		(15,821)	(3,285)
Discontinued operation		**450**	(253)
Net cash used in investing activities		**(15,371)**	(3,538)
Cash flows from financing activities			
Continuing operations			
Net proceeds from issuance of ordinary shares		**–**	27,867
Proceeds from borrowings		**23,900**	35,809
Repayments of borrowings		**(24,700)**	(44,395)
Principal elements of lease payments		**(274)**	(542)
Proceeds from borrowing from shareholders		**589**	–
		(485)	18,739
Discontinued operation		**(100)**	(2,000)
Net cash (used in)/generated from financing activities		**(585)**	16,739
Net (decrease)/increase in cash and cash equivalents		**(45,429)**	2,763
Cash and cash equivalents at beginning of year	21	**51,007**	48,298
Effect of exchange rate changes on cash and cash equivalents		**185**	(54)
Cash and cash equivalents at end of year	21	**5,763**	51,007

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

1 GENERAL INFORMATION

Da Sen Holdings Group Limited ("the Company") 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 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

(a) 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").

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

(b) *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 24(a) to these consolidated financial statements.

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 bank borrowings were due for repayment in January and February 2021. This had triggered cross default of another bank borrowing of RMB10,000,000 as at 31 December 2020, which was 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 24(b) to these consolidated financial statements.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

(b) Going concern basis – continued

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 in Hong Kong ("Proposed Restructuring"), including the bonds borrowings (Note 24(a)) and the interests accrued and other liabilities by way of implementing a creditors schemes ("Creditors Schemes"). Details of the Creditors Schemes and the conditions precedent that shall be fulfilled before the Creditors Schemes become effective are set out in Note 24(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 bond holder creditors (Note 33(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 completion 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 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 33(b). The Directors of the Company expect that the New Open Offer will be completed in June 2021;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

(b) Going concern basis – continued

(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 borrowing that was 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 the major shareholders of the Company for providing financing to the Group, and in contact with potential buyers to dispose certain assets of the Group so as to raise additional cash; and

(v) The Group will continue its efforts to 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.

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 33(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 24(a);

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

(b) Going concern basis – continued

(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 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.

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.

(c) 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.

(d) New and amended standards adopted by the Group

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.1 Basis of preparation – *continued*

(e) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.2 Principles of consolidation and equity accounting

Subsidiaries

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

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

2.3 Separate financial statements

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

2.4 Segment reporting

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

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

2.5 Foreign currency translation

(i) Functional and presentation currency

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.5 Foreign currency translation – *continued*

(ii) Transactions and balances

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

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

(iii) Group companies

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.6 Property, plant and equipment

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

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.7 Investment properties

Investment properties, principally comprising buildings, are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Group. Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful lives. The residual values and useful lives of investment properties are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are included in the income statement when the changes arise. The gain or loss on disposal of investment property is calculated as the difference between the net disposal proceeds and the carrying amount at the date of disposal.

2.8 Land use rights

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

2.9 Impairment of investments in subsidiaries and non-financial assets

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

2.10 Discontinued operation

Discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale if the carrying amount will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the operation must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such operation and its sale must be highly probable. In addition, it must satisfy any of the following criteria:

(a) represents a separate major line of business or geographical area of operations;

(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or

(c) is a subsidiary acquired exclusively with a view to resale.

The comparative statements of profit or loss have been restated and re-presented as if the operation discontinued during the year had been discontinued at the beginning of the comparative year.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.11 Financial assets

(i) Classification

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

- those to be measured at amortised cost.

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

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

(ii) Recognition and derecognition

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

(iii) Measurement

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.11 Financial assets – *continued*

(iii) Measurement – continued

Debt instruments

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

(iv) Impairment

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

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

2.12 Offsetting financial instruments

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.13 Inventories

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

2.14 Trade and other receivables

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

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

2.15 Cash and cash equivalents

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

2.16 Share capital

Ordinary shares are classified as equity.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.17 Trade and other payables

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

2.18 Borrowings

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

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

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

2.19 Borrowing costs

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.20 Current and deferred income tax

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

Current income tax

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

Deferred income tax

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.21 Employee benefits

Pension obligations

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

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; (b) when the Group recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.22 Revenue recognition

Sales of products

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.22 Revenue recognition – *continued*

Sales of products – continued

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

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

2.23 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

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

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

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payment is allocated between the principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

2.23 Leases – *continued*

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

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

Right-of-use asset is generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated statement of financial position based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

2.24 Government grants

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

2.25 Interest income

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

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

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The directors do not consider the exposure to foreign exchange risk significant to the Group's operation as the Group mainly operates in Mainland China with most of the transactions denominated and settled in RMB. Therefore, the Group did not use any derivatives to hedge its exposure to foreign exchange risk for the year ended 31 December 2020.

The Group's exposure to foreign exchange risks arises from the Company's bonds liabilities and cash and bank balances assets in Hong Kong which are denominated in HK$ (Note 20, 21, 24 and 25).

At 31 December 2020, if RMB had strengthened/weakened by 10% against the US$ and HK $ (pegged with US$) with all other variables held constant, the Group's net loss for the year would have been RMB2,461,000 lower/higher (2019: RMB2,348,000 lower/higher), mainly as a result of foreign exchange gains/(losses) on translation of US$ and HK$ denominated bonds liabilities and cash and bank balances assets.

(ii) Cash flow and fair value interest rate risk

Except for cash and cash equivalents (Note 21), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(a) Market risk – continued

(ii) Cash flow and fair value interest rate risk – *continued*

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

As at 31 December 2020, if interest rate on borrowings had been higher/lower by 10% of current interest rate, with other variables held constant, the Group's net loss for the years would have been increased/decreased by approximately RMB322,000 (2019: RMB358,000).

(b) Credit risk

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

(i) Risk management

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

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

(ii) Impairment of financial assets

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

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(b) Credit risk – continued

(ii) Impairment of financial assets – *continued*

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

Trade receivables

The Group applies the IFRS 9 modified retrospective approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables from initial recognition.

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

Individually impaired trade receivable is related to customer who is experiencing unexpected economic difficulties. The Group expects that the entire amounts of the receivables will have difficulty to be recovered and has recognised impairment losses. As at 31 December 2020, trade receivable of approximately RMB75,688,000 has been fully provided for loss allowance for these individually assessed receivables.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2020 or 1 January 2020 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has considered the business, financial or economic conditions and performance and behaviour of customers, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The Group 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 Group had 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 Group 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 Group 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 Group adjusts 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 are calculated by multiplying the respective adjusted PD and the respective adjusted LGD.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(b) Credit risk – continued

(ii) Impairment of financial assets – *continued*

Trade receivables – *continued*

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

31 December 2020	Current RMB'000	Past due for within 6 months RMB'000	Past due for more than 6 months and less than 1 year RMB'000	Past due for more than 1 year RMB'000	Total RMB'000
Expected loss rate	2.13%	4.27%	11.12%	54.57%	6.59%
Gross carrying amount	41,743	40,591	7,699	5,104	95,136
Loss allowance	890	1,734	856	2,785	6,265
Individually impaired receivables	–	465	21,682	53,541	75,688
Total loss allowance	890	2,199	22,538	56,326	81,953

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

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(b) Credit risk – continued

(ii) Impairment of financial assets – *continued*

Trade receivables – *continued*

The significant increase in expected loss rate in 2020 was due to the increase in corresponding historical credit losses experienced within the 36 months before balance sheet date.

The closing loss allowances for trade receivables as at 31 December 2020 reconcile to the opening loss allowances as follows:

	Trade receivables	
	2020	2019
	RMB'000	RMB'000
Opening loss allowance at 1 January	**8,334**	7,822
Provision for receivables impairment	**73,619**	512
At 31 December	**81,953**	8,334

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

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

Other financial assets at amortised cost

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

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(b) Credit risk – continued

(ii) Impairment of financial assets – *continued*

Other financial assets at amortised cost – *continued*

The closing loss allowances for other receivables as at 31 December 2020 reconcile to the opening loss allowances as follows:

	Other receivables	
	2020 RMB'000	2019 RMB'000
Opening loss allowance at 1 January	10,795	–
Provision for receivables impairment	7,176	10,795
At 31 December	17,971	10,795

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

The following losses were recognised in "net impairment losses on financial assets" in the consolidated statement of comprehensive income in relation to impaired financial assets:

	2020 RMB'000	2019 RMB'000
Loss allowance for trade receivables		
– continuing operations	54,688	609
– discontinued operation	18,931	(97)
Loss allowance for other receivables		
– continuing operations	7,176	10,795
Total	80,795	11,307
Charged to:		
Continuing operations	61,864	11,404
Discontinued operation	18,931	(97)
Total	80,795	11,307

3 FINANCIAL RISK MANAGEMENT – *continued*

3.1 Financial risk factors – *continued*

(b) Credit risk – continued

(ii) Impairment of financial assets – *continued*

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

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

(c) Liquidity risk

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 3 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2020					
Borrowings	**57,937**	**–**	**–**	**–**	**57,937**
Interest payables for borrowings	**5,216**	**–**	**–**	**–**	**5,216**
Trade and other payables	**9,683**	**–**	**–**	**–**	**9,683**
	72,836	**–**	**–**	**–**	**72,836**
At 31 December 2019					
Borrowings	37,414	–	14,332	8,958	60,704
Interest payables for borrowings	2,606	1,621	3,502	524	8,253
Trade and other payables	7,442	–	–	–	7,442
	47,462	1,621	17,834	9,482	76,399

3 FINANCIAL RISK MANAGEMENT – *continued*

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of the bank borrowings and dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total equity. Total borrowings include 'current and non-current borrowings' as shown in the consolidated balance sheet. Total equity is 'equity' as shown in the consolidated balance sheet.

The gearing ratios as at 31 December 2020 and 2019 were as follows:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Total borrowings (note 24)	**57,937**	59,839
Total equity	**169,271**	404,573
Gearing ratio	**34%**	15%

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.

3 FINANCIAL RISK MANAGEMENT – *continued*

3.3 Fair value estimation

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

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

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

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

As at 31 December 2020, the Group had no financial instruments that are subsequently measured in the consolidated balance sheet at fair value.

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Going concern consideration

In the process of applying the Group's accounting policies, apart from those involving estimations,management has prepared the 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 on the going concern assumption are set out in note 2(a)(i) to the consolidated financial statements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

(b) Estimated useful lives and residual values of property, plant and equipment and investment properties

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

(c) Estimated impairment of property, plant and equipment and investment properties

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

(d) Net realisable value of inventories

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

(e) Provision for impairment of trade and other receivables

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

(f) Current and deferred income taxes

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

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

(g) Classification of discontinued operation

Operations that are classified as held for sale or have been disposed of or terminated, are presented as discontinued operation in the consolidated statements of profit or loss when the operations represent a major separate line of business or geographical area of operations, or part of a single coordinated disposal plan or represent a subsidiary acquired exclusively with a view to resale. The assessment on what is a major separate line of business or a major geographical area of operations is done on a case by case basis and depends on the size of the operations as compared to the total operations of the Group. Further details of the discontinued operation of the Group during the year ended 31 December 2020 are set out in Note 5 below.

5 REVENUE AND SEGMENT INFORMATION

(a) Segment Information

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

Continuing operations:

– Manufacturing and sales of plywood;

– Leasing activities

Discontinued operation:

– Manufacturing and sales of biomass wood pellets.

The Group were previously engaged in the manufacturing and sales of plywood and biomass wood pellets in the PRC. 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. 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 and 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.

No geographical segment information is presented as all the revenue and operating profits of the Group are derived within Mainland China and all the operating assets of the Group are located in Mainland China, which is considered as one geographic location with similar risks and returns.

The executive directors assess the performance of the business segments based on profit before income tax without allocation of finance costs, which is consistent with that in the consolidated financial statements.

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

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

5 REVENUE AND SEGMENT INFORMATION – *continued*

(a) Segment Information – *continued*

The segment information for the year ended 31 December 2020 is as follows:

	Continuing operations		Discontinued operation		Group
	Plywood RMB'000	Lease activities RMB'000	Wood pellets RMB'000	Inter-segment revenue RMB'000	Group RMB'000
Segment result					
Revenue	173,859	1,422	10,735	(7,783)	178,233
Segment results	(165,454)	(31,021)	(23,811)	1,069	(219,217)
Unallocated costs					(6,353)
Finance costs – net (Note 10, 12)					(2,452)
Loss before income tax					(228,022)
Income tax expense (Note 11)					(7,280)
Loss for the year					(235,302)
Other segment items					
Income statement items:					
Net impairment losses on financial assets	61,864	–	18,931		80,795
Amortisation of right-of-use assets (Notes 6, 12, 15)	520	–	110	–	630
Depreciation of property, plant and equipment (Notes 6, 12, 16)	3,545	–	573	–	4,118
Impairment charges on property, plant and equipment (Notes 6, 12, 16)	2,491	–	–	–	2,491
Loss/(gain) on disposal of property, plant and equipment (Notes 9, 28)	1,628	–	(30)	–	1,598
Write-off construction in progress (Notes 16)	12,439	–	–	–	12,439
Depreciation of investment properties (Notes 6, 17)	–	1,384	–	–	1,384
Impairment charges on Investment properties (Note 17)	–	28,210	–	–	28,210
Other items:					
Additions to non-current assets (Note 16)	92	15,969	–	–	16,061

5 REVENUE AND SEGMENT INFORMATION – *continued*

(a) Segment Information – *continued*

The segment assets and liabilities at 31 December 2020 are as follows:

	Plywood RMB'000	Lease activities RMB'000	Unallocated RMB'000	Group RMB'000
Total assets	226,776	48,494	345	275,615
Total liabilities	54,665	12,706	38,973	106,344

The segment information for the year ended 31 December 2019 is as follows:

	Continuing operations	Discontinued operation		
	Plywood RMB'000	Biomass wood pellets RMB'000	Inter-segment revenue RMB'000	Group RMB'000
Segment result				
Revenue	305,503	30,527	(17,488)	318,542
Segment results	(61,579)	(9,054)	4	(70,629)
Unallocated costs				(5,546)
Finance costs – net (Note 10, 12)				(5,485)
Loss before income tax				(81,660)
Income tax expense (Note 11)				6,079
Loss for the year				(75,581)
Other segment items				
Income statement items:				
Net impairment losses/(gains) on financial assets	11,404	(97)	–	11,307
Amortisation of right-of-use assets (Notes 6, 15)	863	244	–	1,107
Depreciation of property, plant and equipment (Notes 9, 16)	4,162	1,905	–	6,067
Impairment charges on property, plant and equipment (Note 16)	7,512	6,465	–	13,977
Loss on disposal of property, plant and equipment (Notes 9, 28)	607	103	–	710
Other items:				
Additions to non-current assets	3,525	300	–	3,525

5 REVENUE AND SEGMENT INFORMATION – *continued*

(a) Segment Information – *continued*

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

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

(b) Revenue from contracts with customers

	Year ended 31 December	
	2020 **RMB'000**	2019 RMB'000
Revenue from contract with customers within the scope of IFRS 15		
Revenue from sales of plywood	**173,859**	305,503
Revenue from other resources		
Rental income	**1,422**	–
	175,281	305,503

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

The Group leases out its investment properties. The Group has classified these leases as operating leases because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Note 17 sets out information about the operating leases of investment properties.

5 REVENUE AND SEGMENT INFORMATION – *continued*

(c) Information about major customers

Revenue from an individual customer which accounted for 10% or more of the Group's total revenue during the year is set out as below:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Customer A	26,822	N/A (i)
Customer B	21,180	N/A (i)

(i) Contributed less than 10% of the Group's total revenue for the relevant year.

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 18)	7,376	5,970
Employee benefit expenses (Note 7)	12,993	17,431
Utilities	907	1,451
Amortisation of right-of-use assets (Note 15)	520	863
Depreciation of property, plant and equipment (Note 16)	3,545	4,162
Impairment charges on property, plant and equipment (Note 16)	2,491	7,512
Depreciation of investment properties (Note 17)	1,384	–
Impairment charges on investment properties (Note 17)	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 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Salaries, wages and bonuses	**12,225**	14,828
Pension, housing fund, medical insurance and other social benefits	**768**	2,603
Total employee benefit expenses	**12,993**	17,431

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

Five highest paid individuals

The five individuals whose emoluments are the highest in the Group included two (2019: five) directors during the year, whose emoluments are reflected in the analysis shown in Note 33. The emoluments paid and payable to the remaining individual during the year are as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Salaries and bonus	**515**	644
Pension, housing fund and other social benefits	**–**	4
	515	648

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

	Year ended 31 December	
	2020	2019
Emolument band (in HK$)		
Nil to HK$1,000,000	**3**	1

8 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 (Note 26)	**25**	27
	2,799	2,710

9 OTHER LOSSES – NET

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Net losses on write off of construction in progress (Note 16)	**12,439**	–
Net losses from disposal of property, plant and equipment (Note 28)	**1,628**	607
Impairment loss of inventories due to flooding (Note 18)	**–**	8,107
Loss due to forfeiture of a land purchase (Note 16)	**–**	3,300
Net foreign exchange losses/(gains) (Note 3.1(a))	**67**	(81)
Others	**398**	205
	14,532	12,138

10 FINANCE COSTS – NET

	Year ended 31 December	
	2020 RMB'000	2019 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 (Note 3.1(a))	(2,203)	679
– Interest charges paid for lease liabilities (Note 15)	8	34
– Others	362	–
Subtotal:	2,213	4,994
Finance costs – net	2,200	4,987

11 INCOME TAX EXPENSE/(CREDIT)

	Year ended 31 December	
	2020 RMB'000	2019 RMB'000
Current income tax expense	–	–
Deferred income tax debit/(credit) (Note 27)	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 12)	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.

11 INCOME TAX EXPENSE/(CREDIT) – *continued*

(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 RMB'000	2019 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)

11 INCOME TAX EXPENSE/(CREDIT) – *continued*

(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.

12 DISCONTINUED OPERATION

As mentioned in Notes 1 and 5 above, 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.

12 DISCONTINUED OPERATION – *continued*

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

	Year ended 31 December	
	2020 RMB'000	2019 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 (Note 3.1(b))	(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)

12 DISCONTINUED OPERATION – *continued*

(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 (Note 15)	**110**	244
Depreciation of property, plant and equipment (Note 16)	**573**	1,905
Impairment charges on property, plant and equipment (Note 16)	**–**	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

13 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 RMB'000	2019 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.

14 SUBSIDIARIES

The Group's principal subsidiaries at 31 December 2020 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The place of incorporation or registration is also their principal place of business.

Company name	Place of incorporation/ operation and type of legal entity	Principal activities	Paid-up capital	Ownership interest held by the Group	
				2020	2019
Directly held:					
Heroic Group Limited 雄英集團有限公司	BVI, limited liability company	Investment holding	USD50,000	**100%**	100%
Indirectly held:					
Mei Sem (Hong Kong) Holding Co., Limited 美森（香港）控股有限公司	Hong Kong, limited liability company	Investment holding	HKD10,000	**100%**	100%
Dasen (Hong Kong) Holdings Company Limited 大森（香港）控股有限公司	Hong Kong, limited liability company	Investment holding	HKD10,000	**100%**	100%
Meisen (Shandong) Wood Limited 美森（山東）木業有限公司	Shandong Province, limited liability company	Manufacturing and sales of plywood	RMB199,946,734	**100%**	100%
Dasen (Heze) Biomass Energy Limited 大森（菏澤）生物質能源有限公司	Shandong Province, limited liability company	Operating lease	USD6,000,000	**100%**	100%
Da Sen Heze Advanced Materials Technology Company Limited 菏澤大森新型材料有限公司	Shandong Province, limited liability company	No operation.	RMB10,000,000	**100%**	100%

15 RIGHT-OF-USE ASSETS

As mentioned in Notes 2.1 and 2.23 above, the Group changed its accounting policies for leases where the Group is a lessee pursuant to the adoption of IFRS 16 "Leases" effective 1 January 2019. This note provides information for leases including land use rights, where the Group is a lessee

(a) Movements in right-of-use assets in 2020 and 2019 are analysed as follows:

	2020		
	Properties RMB'000	Land use rights RMB'000	Total RMB'000
At 1 January	**432**	**26,838**	**27,270**
Amortisation charges (Note 6, 12)	**(256)**	**(374)**	**(630)**
Termination	**(176)**	**–**	**(176)**
Transfer to investment properties (Note 17)	**–**	**(15,885)**	**(15,885)**
At 31 December	**–**	**10,579**	**10,579**

	2019		
	Properties RMB'000	Land use rights RMB'000	Total RMB'000
At 1 January	929	24,549	25,478
Additions	–	2,899	2,899
Amortisation charges (Note 6, 12)	(497)	(610)	(1,107)
At 31 December	432	26,838	27,270

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

As at 31 December 2020, land use rights of the Group with a total net book value of RMB5,521,000 (2019: RMB20,182,000) were pledged as security for short-term bank borrowings of the Group (Note 24).

15 RIGHT-OF-USE ASSETS – *continued*

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

	2020		
	Properties RMB'000	Land use rights RMB'000	Total RMB'000
Continuing operations			
Amortisation charges (Note 6)			
Cost of sales	–	247	247
Administrative expenses	256	17	273
	256	264	520
Discontinued operation			
Amortisation charges (Note 12)			
Cost of sales	–	104	104
Administrative expenses	–	6	6
	–	110	110
	256	374	630
Interest expense (included in finance cost) (Note 10)			8
Net foreign exchange gains			(21)
Total charges to income statement			617

15 RIGHT-OF-USE ASSETS – *continued*

(b) Amounts recognised in the consolidated statements of comprehensive income – *continued*

	2019		
	Properties RMB'000	Land use rights RMB'000	Total RMB'000
Continuing operations			
Amortisation charges (Note 6)			
Cost of sales	–	342	342
Administrative expenses	497	24	521
	497	366	863
Discontinued operation			
Amortisation charges (Note 12)			
Cost of sales	–	228	228
Administrative expenses	–	16	16
	–	244	244
	497	610	1,107
Interest expense (included in finance cost) (Note 10)			34
Net foreign exchange losses			21
Total charges to income statement			1,162

The total cash outflow for leases in 2020 was RMB165,000 (2019: 528,000).

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

The Group leases an office premises in Hong Kong. The rental contract is made for a fixed period of 2 years. Extension and termination option are included in the contract. In June 2020, the Group terminated the 2 years lease and leased another office area with one year short term lease. Accordingly, no more right-of-use assets in respect of properties were recognised.

16 PROPERTY, PLANT AND EQUIPMENT

	2020					
	Plant RMB'000	Machinery RMB'000	Furniture fixtures and equipment RMB'000	Vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 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 17)	(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, 12)	(2,740)	(1,271)	(45)	(62)	–	(4,118)
Disposals	45	6,437	36	105	–	6,623
Transfer to investment properties (Note 17)	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 17)	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

16 PROPERTY, PLANT AND EQUIPMENT – *continued*

	2019					
	Plant RMB'000	Machinery RMB'000	Furniture fixtures and equipment RMB'000	Vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2019	111,818	37,209	1,139	1,119	41,682	192,967
Additions	–	33	7	–	824	864
Transfer upon completion	–	103	–	–	(103)	–
Disposals	(665)	(1,806)	–	(324)	–	(2,795)
Transfer to other receivables (Note 20(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 6,12)	(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

16 PROPERTY, PLANT AND EQUIPMENT – *continued*

(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 RMB'000	2019 RMB'000	**2020 RMB'000**	2019 RMB'000	**2020 RMB'000**	2019 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 24).

(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.

17 INVESTMENT PROPERTIES

	2020		
	Plant RMB'000	Land use rights RMB'000	Total RMB'000
Cost			
At 1 January 2020	–	–	–
Transfer from right-of-use assets (Note 15)	–	17,746	17,746
Transfer from property, plant and equipment (Note 16)	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 (Note 15)	–	(1,861)	(1,861)
Transfer from property, plant and equipment (Note 16)	(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 16)	(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

17 INVESTMENT PROPERTIES – *continued*

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 (Note 15) and property, plant and equipment (Note 16) 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

17 INVESTMENT PROPERTIES – *continued*

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, investment properties of the Group with a total net book value of RMB33,099,000 (2019: Nil) were pledged to secure short-term bank borrowings as disclosed in Note 24.

18 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 Chengwu County, Heze City 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 9).

19 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Financial assets		
Financial assets at amortised cost		
Trade and other receivables*	97,158	185,580
Cash and cash equivalents	5,763	51,007
	102,921	236,587
Financial liabilities		
Liabilities at amortised cost		
Trade and other payables*	12,447	8,373
Borrowings	57,937	59,839
	70,384	68,212

* Excluding non-financial assets and liabilities

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

20 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2020 RMB'000	2019 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 RMB'000	2019 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.

20 TRADE AND OTHER RECEIVABLES – *continued*

(a) Trade receivables – *continued*

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. Note 3.1(b) provides details about the assessment of the allowance.

(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 (Note 16) 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.

21 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Cash on hand	**57**	138
Cash at banks	**5,706**	50,869
Cash and cash equivalents	**5,763**	51,007

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
RMB	**5,622**	50,321
USD	**1**	1
HKD	**140**	685
	5,763	51,007

22 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares	Amount		
		Share capital	Share premium	Total
	'000	RMB'000	RMB'000	RMB'000
At 1 January 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.

23 OTHER RESERVES

	Capital reserves RMB'000	Statutory reserves RMB'000	Total 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.

24 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 of 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.

24 BORROWINGS – *continued*

(a) Bonds – *continued*

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 the Proposed Restructuring (Note 2.1(b)), including the bonds borrowings and the interests accrued and other liabilities in Hong Kong, by way of implementing the 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.

24 BORROWINGS – *continued*

(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 (Note 30).

The Group failed to repay three borrowings from a bank 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. This had triggered cross default of another bank borrowing of RMB10,000,000 as at 31 December 2020, which was 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.

25 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.

26 DEFERRED INCOME

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Government grants relating to property, plant and equipment	**317**	342

The government grants were received from the local government as a subsidy to the Group's purchase of property, plant and equipment. They are amortised to the consolidated statements of comprehensive income on a straight-line basis over the expected useful lives of the related assets.

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
At beginning of year	**342**	369
Amortised as income (Note 8)	**(25)**	(27)
At end of year	**317**	342

27 DEFERRED INCOME TAX

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Deferred income tax assets:		
– Deferred income tax asset to be recovered after 12 months	**–**	2,375
– Deferred income tax asset to be recovered within 12 months	**–**	4,905
	–	7,280
Deferred income tax assets (net)	**–**	7,280

27 DEFERRED INCOME TAX – *continued*

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
At beginning of year	**7,280**	1,201
(Charged)/credited to consolidated statement of comprehensive income (Note 11)	**(7,280)**	6,079
At end of year	**–**	7,280

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

Deferred income tax assets	Impairment losses RMB'000	Government grants RMB'000	Amortisation difference of unrecognised finance lease charge RMB'000	Employee benefits and interest payable accrual RMB'000	Total RMB'000
At 1 January 2019	2,095	94	381	2,243	4,813
Credited/(charged) to the consolidated statements of comprehensive income	7,673	(7)	(53)	(946)	6,667
At 31 December 2019	9,768	87	328	1,297	11,480
At 1 January 2020	**9,768**	**87**	**328**	**1,297**	**11,480**
Charged to the consolidated statements of comprehensive income	**(9,768)**	**(87)**	**(328)**	**(1,297)**	**(11,480)**
At 31 December 2020	**–**	**–**	**–**	**–**	**–**

27 DEFERRED INCOME TAX – *continued*

Deferred income tax liabilities	Depreciation difference of property, plant and equipment RMB'000	Capitalised interest RMB'000	Total RMB'000
At 1 January 2019	3,419	193	3,612
Charged/(credited) to the consolidated statements of comprehensive income	597	(9)	588
At 31 December 2019	4,016	184	4,200
At 1 January 2020	4,016	184	4,200
Credited to the consolidated statements of comprehensive income	(4,016)	(184)	(4,200)
At 31 December 2020	–	–	–

28 NOTE TO CASH FLOW STATEMENT

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

	Year ended 31 December	
	2020 RMB'000	2019 RMB'000
Loss before income tax of continue operations	(205,028)	(72,122)
Adjustments for:		
– Amortisation of right-of-use assets (Note 6)	520	863
– Depreciation of property, plant and equipment (Note 6)	3,545	4,162
– Impairment charge on property, plant and equipment (Note 6)	2,491	7,512
– Net losses on disposal of property, plant and equipment (Note 9)	1,628	607
– Net losses on written-off construction in progress (Note 9)	12,439	–
– Depreciation of investment properties (Note 6)	1,384	–
– Impairment charge on investment properties (Note 6)	28,210	–
– Provision for inventory write-down (Note 6)	7,376	5,970
– Other loss – net (Note 9)	465	11,531
– Amortisation of deferred income (Note 6)	(25)	(27)
– Provision for impairment of receivables (Note 3.1(b))	61,864	11,404
– Finance costs – net (Note 10)	2,200	4,987
Changes in working capital		
– Inventories	28,078	10,791
– Trade and other receivables	23,682	(8,255)
– Trade and other payables	4,903	21,424
Cash used in operations	(26,268)	(1,153)

28 NOTE TO CASH FLOW STATEMENT – *continued*

(b) Proceeds from disposal of property plant and equipment and construction in progress

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Net book amount for disposals	**14,307**	845
Losses on written-off construction in progress (Note 9)	**(12,439)**	–
Losses on disposal of property, plant and equipment construction in progress – net (Note 9)	**(1,628)**	(607)
Proceeds from disposal of property, plant and equipment and construction in progress	**240**	238

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

	2020	2019
	RMB'000	RMB'000
Net debt		
Cash and cash equivalents	**5,763**	51,007
Borrowings	**(28,900)**	(29,800)
Bonds	**(29,037)**	(30,039)
Lease liabilities	**–**	(472)
Net debt	**(52,174)**	(9,304)

28 NOTE TO CASH FLOW STATEMENT – *continued*

This section sets out an analysis of net debt and the movements in net debt for each of the years presented. – *continued*

	Liabilities from financing activities				Other assets	
	Borrowings	Bonds and interest payable	Leases liabilities	Sub-total	Cash	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net debt as at 1 January 2019	(41,000)	(28,998)	(929)	(70,927)	48,298	(22,629)
Cash flows	11,200	1,145	528	12,873	2,763	12,873
Foreign exchange adjustments	–	(633)	13	(620)	(54)	(620)
Other changes	–	(2,484)	(84)	(2,569)	–	(2,569)
Net debt as at 31 December 2019	(29,800)	(30,970)	(472)	(61,242)	51,007	(10,235)
Cash flows	**900**	**–**	**165**	**(735)**	**(45,429)**	**(735)**
Foreign exchange adjustments	**–**	**1,959**	**–**	**1,959**	**185**	**1,959**
Other changes	**–**	**(2,790)**	**307**	**(2,483)**	**–**	**(2,483)**
Net debt as at 31 December 2020	**(28,900)**	**(31,801)**	**–**	**(60,701)**	**5,763**	**(54,938)**

29 COMMITMENTS

(a) Capital commitments

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Contracted but not provided for:		
Property, plant and equipment	**–**	5,430

29 COMMITMENTS – *continued*

(b) Non-cancellable operating leases

The Group leases office in Hong Kong under non-cancellable operating lease agreement. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
No later than 1 year	**90**	–

30 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions.

Name and relationship with related parties are set out below:

Related party	**Relationship**
Mr. Ke Mingcai	Shareholder
Mr. Wu Shican	Shareholder
Mr. Wong Tseng Hon	Shareholder
Mr. Zhang Ayang	Shareholder
Mr. Cai Jinxu	Former shareholder of the Company

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the year, and balances arising from related party transactions as at the respective balance sheet dates:

(a) Significant transactions with related parties during the year

Same as disclosed elsewhere in the financial statements the Group had the following transactions with related parties:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Loan due to a shareholder		
– WONG Tseng Hon	**589**	–

30 RELATED PARTY TRANSACTIONS – *continued*

(b) Balances with related parties at the end of year

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Amount due to a shareholder		
– WONG Tseng Hon	**589**	–

(c) Guarantees provided by related parties in respect of the Group's borrowings from banks

As at 31 December 2020, the Group's short-term borrowings of RMB18,900,000 were guaranteed by Mr. Ke Mingcai, an ex-director of the Company, together with his spouse. Short-term borrowings of RMB10,000,000 were guaranteed by Mr. Ke Mingcai together with Mr. Zhang Ayang (Note 24(b)).

As at 31 December 2019, the Group's short-term borrowings of RMB19,800,000 were guaranteed by Mr. Ke Mingcai together with his spouse; And the remaining short-term borrowings of RMB10,000,000 were guaranteed by Mr. Ke Mingcai together with Mr. Zhang Ayang and an employee of the Group's PRC subsidiary (Note 24(b)).

(d) Key management personnel compensation

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Salaries and bonus	**1,032**	5,133
Pension, housing fund, medical insurance and others	**–**	83
	1,032	5,216

31 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

(a) Balance sheet of the Company

	As at 31 December	
	2020 RMB'000	2019 RMB'000
ASSETS		
Non-current assets		
Investment in subsidiaries	136,450	136,450
Other receivables	–	73,454
	136,450	209,904
Current assets		
Other receivables	197	–
Amounts due from subsidiaries	23,550	157,571
Cash and cash equivalents	140	622
	23,887	158,193
Total assets	160,337	368,097
EQUITY		
Capital and reserves attributable to the shareholders		
Share capital	8,592	8,592
Share premium	212,500	212,500
Other reserves	136,450	136,450
Accumulated losses	(238,446)	(23,748)
Total equity	119,096	333,794
LIABILITIES		
Non-current liabilities		
Borrowings	–	22,736
Current liabilities		
Other payables	12,204	4,264
Borrowings	29,037	7,303
	41,241	11,567
Total liabilities	41,241	34,303
Total equity and liabilities	160,337	368,097

The balance sheet of the Company was approved by the Board of Directors on 17 May 2021 and was signed on its behalf.

CHAI Kaw Sing
Executive director

WONG Wai Keung Frederick
Executive director

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

(b) Reserve movement of the Company

	Other reserves RMB'000	Accumulated losses RMB'000
At 1 January 2019	136,450	21,944
Loss for the year	–	1,804
At 31 December 2019	136,450	23,748
Loss for the year	–	214,698
At 31 December 2020	136,450	238,446

32 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

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

	Fees RMB'000	Salary RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Year ended 31 December 2020				
Executive directors:				
Mr. Wong Ben	169	–	–	169
Mr. Chai Kaw Sing	169	–	–	169
Mr. Sun yongtao (iii)	67	–	–	67
Mr. Wong Wai Keung Frederick (iii)	123	–	–	123
Mr. Zhang Ayang	487	–	–	487
Independent Non-executive directors				
Mr. Tso Siu Lun (iv)	78	–	–	78
Mr. Kwok Wai Ching (vi)	15	–	–	15
Ms Lo Yuk Yee (vi)	15	–	–	15
	1,123	–	–	1,123

32 BENEFITS AND INTERESTS OF DIRECTORS – *continued*

(a) Directors' emoluments – *continued*

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

(i) Mr. Wang Songmao resigned as executive director of the Company on 29 September 2020.

(ii) Mr. Ke Mingcai retired and Mr. Wu Shican resigned as executive directors of the Company on 22 May 2020 and 29 September 2020, respectively.

(iii) Mr. Chai Kaw Sing and Mr. Wong Ben were appointed as executive directors of the Company on 12 July 2019. Mr. Sun Yongtao and Mr. Wong Wai Keung Frederick were appointed as independent non-executive directors of the Company on 27 May 2020 and redesignated as executive directors of the Company from 26 November 2020.

(iv) Mr. Tso Siu Lun was appointed as independent non-executive director of the Company on 27 May 2020.

(v) Mr. Lin Triomphe Zheng, Mr. Shao Wanlei retired and Mr. Wang Yuzhao resigned as independent non-executive director of the Company on 22 May 2020.

(vi) Mr. Kwok Wai Ching and Ms. Lo Yuk Yee were appointed as independent non-executive director of the Company on 26 November 2020.

32 BENEFITS AND INTERESTS OF DIRECTORS – *continued*

(a) Directors' emoluments – *continued*

There was no bonus paid to the directors of the Company for the years ended 31 December 2020 and 2019.

No payment was made to directors as retirement benefits during the years ended 31 December 2020 and 2019.

No payment was made to directors as compensation for the early termination of the appointment during the years ended 31 December 2020 and 2019.

No payment was made to directors or receivable by the directors as an inducement to join or upon joining the Company for the years ended 31 December 2020 and 2019.

No compensation was paid during the financial year or receivable by directors or past directors for the loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group distinguishing between contractual and other payments for the years ended 31 December 2020 and 2019.

No payment was made to any third parties for making available directors' services during the years ended 31 December 2020 and 2019.

There are no loans, quasi-loans and other dealings in favour of directors, bodies corporate controlled by and connected entities with such directors during the years ended 31 December 2020 and 2019.

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

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director had a material interest, whether directly or indirectly, subsisted at each of the year ended 31 December 2020 and 2019 or at any time during the years.

33 EVENTS AFTER THE BALANCE SHEET DATE

(a) As mentioned in Note 24(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 of RMB10,000,000 as at 31 December 2020, which was originally due for repayment in June 2021 and will be subject to immediate repayment if requested by the respective bank.

33 EVENTS AFTER THE BALANCE SHEET DATE – *continued*

(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 24(a)). The Open Offer was conditional upon the approval of the Creditors Schemes by the bond holder creditors (Note 24(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") that will not be conditional upon the completion 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) 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 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 June 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.

SUMMARY FINANCIAL INFORMATION

	Years ended 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	175,281	318,542	435,664	499,563	466,118
Gross profit	(113,802)	(28,652)	55,493	97,251	106,149
Operating (loss)/profit	(202,828)	(76,175)	32,453	73,801	79,756
(Loss)/Profit before income tax	(205,028)	(81,660)	26,622	69,363	75,262
Income tax (credit)/expense	(6,246)	6,079	(7,349)	(19,220)	(22,031)
Total comprehensive (loss)/income for the year, attributable to the shareholders of the Company	(235,302)	(75,581)	19,273	50,143	53,231
(Losses)/Earnings per share for profits attributable to the shareholders of the Company – Basic and diluted	(24.15 cents)	(8.05 cents)	2.15 cents	6.59 cents	9.74 cents

	As at 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	111,270	156,576	193,284	193,593	124,184
Current assets	164,315	346,115	350,031	322,790	302,419
Total assets	275,615	502,691	543,315	516,383	426,603
Non-current liabilities	317	23,078	24,722	23,128	417
Current liabilities	106,027	75,040	66,306	60,241	134,399
Total liabilities	106,344	98,118	91,028	88,369	134,816
Total equity	169,271	404,573	452,287	433,014	291,787