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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1580)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE 2021 ANNUAL REPORT

References are made to the annual report of Da Sen Holdings Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2021 (the "**2021 Annual Report**"). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the 2021 Annual Report.

As disclosed in the 2021 Annual Report, the auditors of the Company (the "**Auditors**") made certain disclaimer of opinion (the "**Disclaimer of Opinion**") on the Company's 2021 Annual Report relating to going concern. In this connection, the Company would like to supplement the information disclosed in the 2021 Annual Report:

KEY PLANS AND MEASURES OF THE COMPANY TO ADDRESS THE DISCLAIMER OF OPINION

The Directors have undertaken substantial work to improve the Group's liquidity and financial position, refinance its operations and restructure its debts for the year ended 31 December 2021. In addition to the Amended Open Offer (which is expected to be completed by July 2022), it is expected that the Group will be able to generate additional financing and operating cash flows through the following plans:

Financial support from major shareholders and/or Directors

The Company has received financial support from major shareholders in terms of cash advances in the aggregate amount of HK$5.5 million pursuant to the cash advance agreements signed in 2020 and 2021. The cash advances are used for general working capital in Hong Kong including payments to support the Proposed Restructuring.

The Company has also started a new banking relationship with a global bank with offices in both Hong Kong and Shandong and is in negotiation with the bank for a potential loan facility upon the completion of the Proposed Restructuring.

The Company will continue to discuss with major shareholders with a view to obtaining other forms of financial support such as providing guarantees for new bank borrowings to be obtained from this bank to replace the defaulted loans in China after the completion of the Proposed Restructuring.

Potential disposal of certain assets of the Group and potential disposal of certain interests in the Company's subsidiary

The Company has conducted negotiations with five potential buyers to acquire the Group's investment properties (consist of land and factories) currently held by Dasen (Heze) Biomass Energy Limited which will be sold with existing tenancy. As at the date of this announcement, four of the five potential buyers have already completed site inspections and two of the five buyers have commenced due diligence process. The Company has so far received one written offer and two verbal offers from the five potential buyers for the investment properties but has turned down all the offers as they were either unable to match the Company's expected selling price or they are unable to complete within a reasonable period to improve the Group's short-term liquidity.

The Company was in discussion with few other new potential investors and a Beijing based company (being one of the new potential investors) which has expressed interests in acquiring one of the investment properties of the Group. The Company has deployed a consultant to Heze to oversee the sale process of Groups' investment properties.

Potential investors and business partners have also expressed interests in acquiring minority interest in Dasen (Heze). The Board is currently assessing such viability.

The Directors are fully aware that the sale of non-core assets (i.e. the aforementioned investment properties which are leased out for rental purposes) or minority interests in subsidiary of the Group is crucial to improve the Group's liquidity and has been monitoring the situation on a daily basis. The Board will take prompt actions to complete this crucial task and the Board has full confidence that the sale will be completed within the 2022 financial year.

Proposed plan to settle the outstanding debts of the Group

As disclosed in the 2021 Annual Report, the Group's current borrowings amounted to RMB62,647,000 in total, including bonds payables of RMB27,860,000 in Hong Kong, bank borrowings of RMB25,287,000 and other loan of RMB9,500,000 from independent third party in the PRC.

Hong Kong

The Company had defaulted on all its bonds, thereby triggered the default redemption clause of the bond contracts. As a result of the default in interest payments, the outstanding bonds payables became immediately repayable upon request by the bondholders.

In order to substantially discharge the liabilities and claims against the Company in Hong Kong and to alleviate its cash flow pressure, on 30 November 2020, the Board approved the implementation of the Proposed Restructuring whereby the Company intends to restructure its debts by way of implementing the Scheme. Upon the Scheme becoming effective, the Scheme administrators will take steps to adjudicate the claims and to distribute the Scheme consideration on a pro rata basis based on the amounts of admitted claims under the Scheme and all the outstanding bonds payables shall accordingly be released and discharged under the Scheme. It is envisaged that the Proposed Restructuring (including the implementation of the Scheme) will be completed in the third quarter of 2022.

PRC

In respect of the bank borrowings in the PRC, the Group defaulted three loans from a bank in the PRC, totaling RMB16,287,000 (after partial repayment). This had triggered cross default of another bank borrowing of RMB10,000,000 (which was subsequently reduced to a new facility line of RMB9,000,000 on 29 September 2021) and will become immediately due and payable upon request. During the year ended 31 December 2021, the bank of the three defaulted loans filed a petition to the People's Court in Chengwu County of Shandong Province for the repayment of the loans and interest accrued and the court ordered the repayment of the principal amount and the interest accrued within 10 days from judgement date. While the Group was unable to repay the principal of the loans within the time specified by the Court, the Group had been repaying the relevant interests and default interests to the bank and the bank had no intention to take foreclosure action as a result. As advised by the local management of the Group in Shandong, so long as the aforementioned non-core assets of the Group can be sold at market value, the proceeds from which will be sufficient to settle the outstanding loans of RMB16,287,000.

In the unlikely event that the Group is unable to repay the principal of the loans, the Company has been given to understand that the bank will dispose of the loans to an asset management company in Shandong. The asset management company will then auction the loans together with relevant pledged assets (being the aforementioned non-core assets) (the "**Asset Package**"). It is expected that the purchaser(s) of the Asset Package will then take control and subsequently dispose of the pledged assets (being the non-core assets of the Group).

Note:

On 5 May 2022, the management of the PRC subsidiaries of the Group has been verbally notified by China Construction Bank Chengwu Branch (being the aforementioned PRC bank) that as a standard practice, the bank has already initiated internal procedures to sell the overdue debts owed by Meisen (Shangdong) and Dasen (Heze) and that bad debts of the bank will normally be taken over by a Shangdong asset management company.

On 3 August 2022, the management of the PRC subsidiaries of the Group has been further verbally notified by the PRC bank that the details of the overdue debts had been passed to the asset management company and the sale of the overdue debts is expected to complete in due course.

As at the date of this announcement, the local management has not received any written notification from the Shangdong asset management company on this matter and the operations of the pledged assets (being the non-core assets of the Group) remain as usual. The Board and the local management will continue to work with the PRC bank (and in future the asset management company) to repay the loans.

On the other hand, the cross-default loan of RMB10,000,000 was successfully renewed and reduced to a new facility line of RMB9,000,000 with another bank in 2021 and its maturity date will be 20 September 2022.

It is expected that the remaining borrowings in the PRC (including the aforementioned new loan facility and the other loan of RMB9,500,000) will be settled by way of disposal of non-core assets of the Group and/or new banking facility in the PRC, which is expected to take place in the second half of 2022.

Implementation of 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

The Group intends to roll 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 Group has already made some progress in these areas during the year ended 31 December 2021 including, among other things, (i) improvement in inventory control such as reducing the amount of inventory and raw materials in storage; (ii) better cost control leading to improvement in profit margin; and (iii) completion of initial studies of export of products to overseas customers, and the Group will continue to accelerate improvements in 2022. As at the date of this announcement, the Group is also in the final stage of discussion with a potential business partner to source and export its products to the Asian markets including Japan. Such export business will expand the customer geographic footprint to beyond the domestic China market and is expected to generate positive gross profit and margin to the Group.

The Directors have reviewed the Group's cash flow projections prepared by management of the Company (the "**Management**"), covering a period of not less than twelve months from the date of the 2021 Annual Report which have been reviewed by the Auditors as an integral part of their auditing process, and are of the view that, taking into account the above mentioned 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 the date of 2021 Annual Report.

MANAGEMENT'S VIEW ON THE DISCLAIMER OF OPINION

Taking into consideration the action plans and measures as set out in the section above (which have been fully discussed with the Auditors and are expected to be substantially completed during the year ending 31 December 2022), the Management is of the view that, barring unforeseen circumstances, the cash position and financial position of the Group will be substantially improved and the Disclaimer of Opinion relating to going concern can and will be removed in the financial year ending 31 December 2022 upon the successful implementation of the Proposed Debt Restructuring, including both the Amended Open Offer and the Scheme; the repayment of debts in the PRC through disposal of assets and new bank borrowings; and the successful implementation of abovementioned plans and measures in enhancing the Group's working capital position.

Accordingly, the Management considers that it is appropriate to prepare the consolidated financial statements on a going concern basis. Nevertheless, the Management has considered the Auditors' view and noted their concerns in arriving at their view towards the Disclaimer of Opinion.

AUDIT COMMITTEE'S VIEW ON THE DISCLAIMER OF OPINION

The Audit Committee agrees with the Auditor's view in respect of the Disclaimer of Opinion. The Audit Committee has reviewed the Management's position on the major judgement areas and information provided by the Management in relation to auditing process and held discussions with the Auditors to discuss the details and reasons in arriving at the Disclaimer of Opinion. The Audit Committee, having considered the Management's report on the auditing process (in particular, the impact of the COVID-19 on the business operation of the Group and the progress on the implementation of the Proposed Debt Restructuring), agreed on the Management's position, shared the view of the Auditors towards the Disclaimer of Opinion and expressed no further comments on it. The Audit Committee has no disagreement with the Management on the Disclaimer of Opinion issued by the Auditors.

The Audit Committee has further discussed with the Auditors the impact of the Disclaimer of Opinion in subsequent financial year and agreed that the Disclaimer of Opinion will be removed for the year ending 31 December 2022 upon successful completion and implementation of the Company's plans to improve the Group's financial position, liquidity and cash flows as set out above.

AUDITORS' VIEW ON THE DISCLAIMER OF OPINION

The Auditors are of the view that the measures to be undertaken by the Company could address the underlying issues leading to the Disclaimer of Opinion. On the basis that the Group can successfully complete and implement the Company's plan to improve the Group's business operation and financial position and successfully restructure its debt to maintain sufficient liquidity and cash flows to the satisfaction of the Auditors, the Disclaimer of Opinion is expected to be removed in the coming financial statements. Based on the discussions between the Company and the Auditor in the course of the auditing process of the Group for the financial year ended 31 December 2021, set out below are the three key components required to achieve by the Company to remove the audit qualifications:

(i) Successful and timely execution of the Amended Open Offer.

The successful completion of Amended 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. Save for the implementation of the Scheme (which is expected to take place within the third quarter of 2022), the Company has completed all of the works relating to the Proposed Restructuring.

(ii) Successful and timely fund raising through financing from major shareholders and the potential disposal of certain assets of the Group.

While the disposal of certain non-core assets of the Group is still on-going, the Company believes that major progresses have been made and it is expected that a deal will be made within the second half of 2022.

The Company is in discussion with a new PRC bank for a facility line upon completion of the Proposed Restructuring. The Company has also requested the major shareholders to support the Company to obtain a new facility line in HK after the completion of the proposed restructuring. This facility line will provide the necessary backup financial resources for the Company so that the Group has the time to complete the disposal of certain assets as described above.

Upon completion of the Proposed Restructuring, the Group's gearing ratio is expected to reduce from approximately 125% as at 31 December 2021 to approximately 34% due to a reduction in the Group's borrowings and the interest burden on the Group will accordingly be reduced. As such, the Group will then be in a better position to negotiate for new external financing at a more favourable terms.

(iii) Successful implementation of measures to improve sales, control costs, contain capital expenditures as well as to accelerate the collection of trade and other receivables.

The company has made substantial progress in terms of reducing the negative margins. In addition, the sales in new geographic markets with new business partners will commence in August 2022 (the "**New Business Line**"). Based on the current information available, it is expected that the New Business Line (if successfully implemented) will provide a new source of revenue for the Group with positive gross profit margin.

In terms of accelerating the collection of trade and other receivables, the Company has deployed a consultant to oversee the China subsidiaries and major progress will be reported in the interim report.

Based on discussions with the Auditors, the Company expects to remove the going concern modifications once the aforementioned are fully implemented.

BUSINESS UPDATE

According to the 2021 Annual Report, the Company recorded gross loss of RMB57 million and net loss of RMB119 million.

While the Company has recorded a gross loss in 2021, the loss was substantial less than the gross loss of RMB114 million in 2020 for a 2021 revenue of approximately RMB 173 million comparing to a 2020 revenue of approximately RMB 175 million (a minor decrease of 1%). The 2021 gross loss margin was 33 per cent compared to 65 per cent in 2020.

The operating environments remained difficult in 2021, and the gross loss was mainly a combination of effects of:

(1) The negative operating environments of the Company's major customers who relied on exports to western countries which were still severely impacted by COVID-19 in 2021;

(2) The reduction in demands of the Group's premium quality products which normally have higher profit margins;

(3) The increase of raw materials and transportation costs; and

(4) Limited supply against increased demand of wood products resulted in higher purchase cost and overall cost of sales.

While the Directors believe that the gross loss situation for our traditional plywood products will likely continue in the first few months of 2022, an upward trend in terms of profitability will continue and situation will gradually improve.

The Directors believe that 2021 was a crucial year to prepare the Group for the future. In 2021, the Group has focused on identifying its strengths and at the same time dealing with its weaknesses. The Directors understand clearly that the Group can no longer do business in the same way as it did before the COVID-19. The Group must improve the competitiveness of its products, find new customers and expand its market footprint outside of China, and the Group must also carefully control its costs. In these aspects, the Group have started the following in 2021 and will continue in 2022:

(1) In 2021, the Group has started discussions with new business partners to export its products to Asian countries, especially Japan. Substantial progress has been made as of the date of this announcement. The Directors believe that sales in new geographic markets will commence in August 2022 which will bring in positive gross profits and will substantially improve the overall profit margins of plywood products.

(2) The Group has also explored opportunities of setting up regional sales offices through its business partners in Southern China where most of its customers are located and the new sales offices should start operations in the second half of 2022. The Directors expect to find new customers to increase the demands for premium quality products;

(3) In early 2022, the Group has recruited an experienced consultant to oversee the Group's production and to implement ways to further strengthen the initiative of cost reduction. Initial measures including the building of a more close business network with local farmers and suppliers to stabilize materials costs, the outsource of certain non-core works to local workers to reduce production costs, and the reduction of manpower and salary expenses have already been implemented; and

(4) In 2022, the Group will also shift the focus to premium customers who have substantial sales network within China and gradually scale down the demands of customers who rely on exporting.

Looking forward to 2022 and beyond, the Group will explore environmental friendly solutions to reduce its wastes and will take more effective measures to manage its assets in Heze Shandong. All these will become the foundations for transitioning the Group into a more modern day manufacturing and production group and a leader in plywood solutions.

By order of the Board of
Da Sen Holdings Group Limited
SUN Yongtao
Non-Executive Chairman and
Non-Executive Director

Hong Kong, 4 August 2022

As at the date of this announcement, the executive Directors are Mr. CHAI Kaw Sing, Mr. WONG Ben and Mr. ZHANG Ayang (duties suspended); the non-executive director is Mr. SUN Yongtao; and the independent nonexecutive Directors are Ms. LO Yuk Yee, Mr. TSO Siu Lun Alan and Mr. KWOK You Tong Henry.