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

2022/23

CONTENT PAGE

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 the Company's 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 indirect 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 indirect wholly-owned subsidiary
"Da Sen Inv (HK)"	Da Sen Investment (Hong Kong) Co., Limited（大森投資（香港）有限公司）, a company incorporated in Hong Kong on 13 August 2020, and is the Company's indirect 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 British Virgin Islands on 11 November 2013 and is the Company's direct 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 the Company's indirect 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 indirect 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$0.01 each
"Shareholder(s)"	holder(s) of the Shares
"Shenzhen Vfuchong"	Shenzhen Vfuchong Qucheng Technology Co., Ltd.* (深圳市微付充趣程科技有限公司), a company established in the PRC on 15 August 2022 and is held as to 51% by the Company, being the Company's indirect non-wholly owned subsidiary
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	United States dollars, the lawful currency of United States of America

CORPORATE INFORMATION

BOARD

Executive Directors

Mr. CHAI Kaw Sing	
Mr. WONG Ben	
Mr. ZHANG Ayang	(Duties suspended)
Mr. WONG Wai Keung Frederick	(Resigned on 24 January 2022)

Non-executive Director

Mr. SUN Yongtao	*(Chairman)* (Redesignated as non-executive Director and chairman with effect from 16 March 2022)

Independent non-executive Directors

Mr. CHAN Shiu Yuen Sammy	(Appointed on 5 August 2022)
Mr. KWOK Yiu Tong	(Appointed on 22 March 2022)
Ms. LO Yuk Yee	
Mr. LO Kam Cheung Patrick	(Resigned on 4 March 2022)
Mr. TSO Siu Lun Alan	(Resigned on 5 September 2022)

COMPANY SECRETARY

Mr. LEUNG Wing Lun *(HKICPA)*

AUDIT COMMITTEE

Mr. CHAN Shiu Yuen Sammy	*(Chairman)* (Appointed on 5 August 2022)
Mr. KWOK Yiu Tong	(Appointed on 22 March 2022)
Mr. LO Yuk Yee	
Mr. SUN Yongtao	(Appointed on 16 March 2022)
Mr. LO Kam Cheung Patrick	(Resigned on 4 March 2022)

REMUNERATION COMMITTEE

Mr. LO Yuk Yee	*(Chairman)*
Mr. CHAN Shiu Yuen Sammy	(Appointed on 5 September 2022)
Mr. SUN Yongtao	(Appointed on 16 March 2022)

NOMINATION COMMITTEE

Mr. SUN Yongtao	*(Chairman)* (Appointed on 16 March 2022)
Mr. CHAN Shiu Yuen Sammy	(Appointed on 5 September 2022)
Mr. LO Yuk Yee	
Mr. LO Kam Cheung Patrick	(Resigned on 4 March 2022)
Mr. TSO Siu Lun Alan	(Resigned on 5 September 2022)

RISK MANAGEMENT COMMITTEE

Mr. CHAI Kaw Sing	*(Chairman)*
Mr. CHAN Shiu Yuen Sammy	(Appointed on 5 September 2022)
Mr. SUN Yongtao	
Mr. TSO Siu Lun Alan	(Resigned on 5 September 2022)

AUTHORISED REPRESENTATIVES
(for the purpose of the Listing Rules)

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

EXTERNAL AUDITOR

Confucius International CPA Limited
Room 1501-08, 15/F., Tai Yau Building,
181 Johnston Road, Wanchai,
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

STATEMENT FROM THE CHAIRMAN

Dear Shareholders,

Year 2022 continues to be a challenging and tough year with the pandemic, global inflation, Sino-US disputes and the Russia-Ukraine war. Amidst the uncertain and volatile socioeconomic environment, the demand of our customers who rely on exports to the Western countries remained low during the fifteen months ended 31 March 2023. Due to the keen competition in the plywood industry and the low demand, we could not sell our products at normal profit margins. As the revenue growth is restricted by external factors, our Group focused on clients with better margin and implemented cost control. Hence, despite the decrease in revenue for the fifteen months ended 31 March 2023 as compared to the year ended 31 December 2021, our gross loss margin improved and we recorded a significant reduction in loss. We believe that this trend will continue.

During the fifteen months ended 31 March 2023, in order to restructure the debts of the Group, the Group underwent a debt restructuring under the Creditors Scheme which included the Open Offer completed in July 2022 and the issuance of the Scheme Shares to the creditors in the fourth quarter of 2022, as well as the entering into of Settlement Deed with creditors for the capitalisation of debts through the issuance of Capitalisation Shares, which was completed in January 2023. Following the completion of the debt restructuring, the debt position of the Group has significantly improved. Currently, the Group is in negotiation regarding the disposal of the parcel of land and buildings located at Chengwu County Industrial Park of Heze, Shandong Province, the PRC, which is a non-core asset that is not used for the Group's operation. It is expected that the financial and debt position of the Group will be further improved following completion of the disposal.

With the improvement in financial position and replenishment of liquidity, the Group is prepared to turn a new page in its business development. For the plywood business, the Group is in discussions with a new business partner to develop new products with higher margin and export such products to the Asian countries. A partnership agreement has been signed and the new business is expected to commence in 2023.

On the other hand, in March 2023, the Group entered into a joint venture agreement in relation to the operation of Shenzhen Vfuchong, a company which will be engaged in the operation of a hotel virtual room card system and an e-commerce membership club platform. It is expected that the income stream of the Group will be broaden and revenue is expected to be generated during the year ending 31 March 2024.

With the above business initiatives, our management team will strive to develop the new export business for the plywood products and the business of Shenzhen Vfuchong while maintaining stringent cost control measures, with the goal to turnaround the Group's loss making position during the year ending 31 March 2024.

On behalf of De Sen Holdings Group Limited, I sincerely thank our shareholders and stakeholders for their continued support to the Group over the years. I would also like to express my heartfelt gratitude to our management team and all staff in Hong Kong and China for all their hard work and efforts in 2022 and look forward to their continuing contributions and support in our initiative to turn the Group around.

Sun Yongtao
Non-Executive Chairman and Non-Executive Director

NON-EXECUTIVE CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Mr. SUN Yongtao（孫湧濤）, aged 66, is the non-executive chairman and non-executive Director. Mr. Sun joined the Group in May 2020 as an independent non-executive Director, redesignated as the executive Director on 26 November 2020 and redesignated as the non-executive Chairman and non-executive Director on 16 March 2022. 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.

EXECUTIVE DIRECTORS

Mr. CHAI Kaw Sing（蔡高昇）, aged 47, 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 also a director of Mei Sum (HK), Dasen (HK) and Heroic Group.

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

Mr. WONG Ben（黃子斌）, aged 44, 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 also a director of Mei Sum (HK), Dasen (HK), Da Sen Inv (HK) and Heroic Group.

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. ZHANG Ayang（**張啊阳**）, aged 47, 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 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. His duties and powers as an executive Director has been suspended by the Board from 15 December 2021 until further notice.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. KWOK Yiu Tong（**郭耀堂**）, aged 65, is an independent non-executive Director. Mr. KWOK joined the Group in March 2022 as an independent non-executive Director. Mr. KWOK has over 40 years of experience in financial management field, mainly gained from reputable multi-national corporations. Mr. Kwok was the finance manager of Hyatt Regency Hong Kong from 1978 to 1989. Mr. Kwok was also the deputy CFO of Harvest International Hotel Ltd., Beijing Taiwan Hotel, and Shenzhen Century Hotel respectively from 1989 to 1998. Mr. KWOK is currently the CFO of a Shenzhen property developer. Mr. KWOK is familiar with the Hong Kong and China accounting standards as well as internal control of multi-national corporations.

Ms. LO Yuk Yee（**勞玉儀**）, aged 63, 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. CHAN Shiu Yuen Sammy（陳紹源）, aged 59, is an independent non-executive Director. Mr. CHAN joined the group in August 2022 as an independent non-executive Director. Mr. CHAN has over 21 years of experience in auditing, accounting, taxation, business consultancy and financial management. Mr. CHAN holds a bachelor's degree in Commerce from Dalhousie University, Canada and is a fellow member of the Association of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants. Mr. CHAN is currently an independent non-executive director of Hidili Industry International Development Limited (stock code: 1393), a company listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), since May 2019. Mr. CHAN was also an independent non-executive director of Powerleader Science & Technology Group Limited ("Powerleader") (stock code: 8236), a company listed on the GEM of the Stock Exchange and withdrawn from listing on 30 December 2020, during the period from December 2009 to December 2020. During the period from May 2005 to May 2007, Mr. CHAN was the company secretary and qualified accountant of Powerleader. During the period from July 2007 to February 2009, Mr. CHAN was the deputy general manager of China Fibretech Limited (company registration no. 40381), a company listed on the main board of the Singapore Stock Exchange Limited. During the period from December 2009 to September 2015, Mr. CHAN was the chief financial officer of Newtree Group Holdings Limited (currently known as Huasheng International Holding Limited) (stock code: 1323), a company listed on the main board of the Stock Exchange.

SENIOR MANAGEMENT

Mr. LEUNG Wing Lun（梁穎麟）, aged 41, 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 18 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 (stock code: 1894) from May 2018 to March 2021.

During the fifteen months ended 31 March 2023, Mr. Leung has undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONS REVIEW

The Company is an investment holding company and its subsidiaries are principally engaged in the sale and manufacture of plywood and property activities.

Wood Operations

The manufacturing and sales of plywood products is the principal business of the Group. The Group's main production base is strategically located in Heze City, Shandong Province in the PRC where there are abundant resources of poplars, the major raw materials for the plywood products. 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)), and hardwood multi-layered board (實木多板). All our products are customised depending on our customers' needs.

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

The wood operations income of the Group accounted for approximately 91.2% of the total revenue for the fifteen months ended 31 March 2023. For the fifteen months ended 31 March 2023, the Group recorded gross loss of approximately RMB5.1 million (year ended 31 December 2021: RMB57.1 million) and loss attributable to owners of the Company of approximately RMB50.8 million (year ended 31 December 2021: approximately RMB119.2 million).

The gross loss was mainly due to (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 2022; (2) the reduction in demands of the Group's premium quality products as our customers purchased cheaper substitutes; and (3) the continuous increase in raw materials and transportation costs.

While the gross loss situation for our traditional plywood products continued to occur, an improvement in the gross loss margin has been observed as we focused on clients with better margin and implemented cost control during the fifteen months ended 31 March 2023. The Group is in the progress of transformation from its old business model before the COVID-19 pandemic to a new business model which would generate high margin, initiatives undertaken so far include:

(1) The Group is in discussions with a new business partner to develop new products with higher margin and export such products to the Asian countries, especially Japan. A partnership agreement has been signed and the new business is expected to commence in 2023.

(2) In 2022, 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.

(3) In 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.

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

The management believed that following the development of these business strategies, the wood operations will turnaround to be profitable during the year ending 31 March 2024.

Property Activities

Since 1 July 2020 and during the fifteen months ended 31 March 2023, the Group has entered into lease agreements to partially lease out the biomass wood pellets factories to a tenant engaging in agricultural wholesale as well as other factories and land which are surplus to needs in order to generate a stable and recurring rental income, and at the same time reducing the costs in managing these assets. The rental income of the Group accounted for approximately 8.8% of the total revenue for the fifteen months ended 31 March 2023.

FINANCIAL REVIEW

Review of results

The consolidated revenue of the Group was approximately RMB59.5 million for the fifteen months ended 31 March 2023, representing a decrease of 65.6% from approximately RMB172.7 million for the year ended 31 December 2021. Due to the uncertain and volatile socioeconomic environment, the demand of our customers had been low during the fifteen months ended 31 March 2023. Given the low demand and the competition in the plywood industry, the Group focused on clients with better margin which resulted in the low revenue.

The consolidated gross loss of the Group for the fifteen months ended 31 March 2023 was approximately RMB5.1 million, representing a significant decrease of 91.0% from approximately RMB57.1 million for the year ended 31 December 2021. For the fifteen months ended 31 March 2023, the gross loss margin was 8.6% compared to 33.0% for the year ended 31 December 2021. The decrease in gross loss margin was mainly because the Group focused on clients with better margin and implemented cost control measures. Excluding the value-added tax, the gross loss for the fifteen months ended 31 March 2023 would be further reduced.

The total selling and administrative expenses were approximately RMB22.9 million for the fifteen months ended 31 March 2023, representing an increase of 27.1% from approximately RMB18.0 million for the year ended 31 December 2021, mainly due to the costs related to the debt-restructuring implemented during the period.

The consolidated loss before tax for the fifteen months ended 31 March 2023 decreased to approximately RMB51.8 million compared to approximately RMB119.1 million for the year ended 31 December 2021. Such significant decrease in loss was mainly due to improvements made in gross loss margin, the cost control measures implemented and the gain on debt-restructuring.

The Group recorded increase in finance costs of approximately RMB7.1 million for the fifteen months ended 31 March 2023 compared to approximately RMB3.7 million for the year ended 31 December 2021. The increase was mainly due to the interest expense on the new loans obtained during the fifteen months ended 31 March 2023, partially offset by the decrease in interest expenses on bank borrowings.

The consolidated net loss after taxation was approximately RMB51.8 million for the fifteen months ended 31 March 2023 compared to approximately RMB119.2 million for the year ended 31 December 2021. Basic loss per share during the period/year under review was RMB3.47 cents compared to basic loss per share of RMB9.17 cents (restated) for the year ended 31 December 2021.

Gearing Ratio

During the fifteen months ended 31 March 2023, the gearing ratio of the Group, calculated based on the total interest-bearing debts divided by the total equity of the Company as at the respective period and multiplied by 100%, was approximately 171.5% (31 December 2021: approximately 125.0%). During the fifteen months ended 31 March 2023, the Group's total interest-bearing debts amounted to approximately RMB44.7 million, which comprised of bank borrowings of approximately RMB8.5 million, other loan of approximately RMB29.2 million and convertible bonds payable of approximately RMB7.0 million. The increase of gearing ratio was primarily attributable to the decrease in equity.

Current assets and liabilities

As at 31 March 2023, the Group held current assets of approximately RMB71.5 million (31 December 2021: RMB90.7 million), mainly comprising trade and other receivables, inventories and cash and cash equivalents.

Cash and cash equivalents balance as at 31 March 2023 increased to approximately RMB6.9 million as compared to approximately RMB3.3 million as at 31 December 2021. The increase in cash and cash equivalents balance was mainly due to the fund raising activities carried out by the Group during the period.

The Group's inventory balances as at 31 March 2023 comprised of work-in-progress and finished goods for plywood products. The decrease in the inventory balance from approximately RMB5.1 million as at 31 December 2021 to approximately RMB1.9 million as at 31 March 2023 was mainly due to (i) less left over raw materials as a results of costs saving measures; and (ii) less work in progress and finished goods of plywood products as at 31 March 2023 due to less purchase orders received by the end of March 2023.

Trade and other receivables balance as at 31 March 2023 mainly represented outstanding receivables balance from customers of our plywood products. There was a decrease in trade and other receivables balance of approximately RMB19.8 million, from approximately RMB82.4 million as at 31 December 2021 to approximately RMB62.6 million as at 31 March 2023. The decrease in trade receivables balance was mainly due to increase in accumulated allowance for expected credit losses of trade receivables from approximately RMB104.6 million as at 31 December 2021 to approximately RMB124.5 million as at 31 March 2023. The increases was due to the increase in outstanding receivables from the Group's downstream customers which have been experiencing extreme difficulties in their business operations since COVID-19.

As at 31 March 2023, the Group's total current liabilities amounted to approximately RMB114.8 million, as compared to approximately RMB130.3 million as at 31 December 2021. The decrease was mainly due to the reduction in borrowings as the Group implemented the debt-restructuring during the period.

Non-current assets

The Group used to operate two plants for the production of plywood products 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.

Investment properties of approximately RMB66.9 million as at 31 March 2023 (31 December 2021: RMB45.2 million) represented land use rights and plants transferred from property, plant and equipment and right-of-use assets. Investment properties are stated at costs less accumulated depreciation and accumulated impairment as determined with reference to independent valuer's valuation as at 31 March 2023.

As at 31 March 2023, the Group's right-of-use assets and property, plant and equipment are valued at approximately RMB2.8 million and RMB5.4 million respectively (31 December 2021: RMB7.4 million and RMB37.4 million respectively). The decreases are results of the transfer of the property, plant and equipment and right-of-use assets to investment properties.

Capital Structure

Borrowings

As at 31 March 2023, the Group's borrowings amounted to approximately RMB37.7 million (31 December 2021: RMB62.6 million) in total, including short term bank borrowings of approximately RMB8.5 million, other loan in Hong Kong of approximately RMB3.6 million, other loan in the PRC of approximately RMB9.5 million and the default bank borrowings which had been transferred to an asset management company in the PRC of approximately RMB16.1 million.

As at 31 March 2023, the Group had bank borrowings denominated in RMB of 8.5 million from banks located in China, decreasing from approximately RMB25.3 million as at 31 December 2021 as the default bank borrowings in the amount of approximately RMB16.1 million had been transferred to an asset management company in the PRC and reclassified as other loan. The Group's bank borrowings are secured by land use rights and plants and investment properties of the Group, and certain guarantees provided to the banks by certain former and present Directors and individuals as at 31 March 2023.

On 1 June 2021, a wholly-owned subsidiary of the Company entered into a term loan facility agreement with the a third party under which the lender agreed to make available a term loan facility up to an aggregate amount of RMB9.5 million. (For more details of this loan, please refer to the section "Security on assets" below).

On 28 June 2021, the Company was being notified by Meisen (Shandong) and Dasen (Heze), indirectly wholly-owned subsidiaries of the Company incorporated in the PRC, that they were respectively named as defendants (the "Defending Subsidiaries") of the civil lawsuits filed by China Construction Bank Chengwu Branch, the PRC (the "Plaintiff") at the Court (the "Court") of Chengwu County of Shandong Province, the PRC (the "Lawsuits"), relating to the recovery of outstanding loan amount due to the Plaintiff by Meisen (Shandong). The orders sought by the Plaintiff against the Defending Subsidiaries are as follows: (1) a liquidated sum of RMB7,450,896.75 as the aggregate unpaid principal amount; (2) interest, penalty and compound interest on the sum in (1) above (the interest amount up to 4 June 2021 claimed by the Plaintiff is RMB23,988.24); (3) costs of the action of claim by the Plaintiff; and (4) further and/or other relief.

On 30 August 2021, the Company released an announcement relating to the hearing of the Lawsuits held on 18 August 2021 indicating that the court subsequently decided to rule in favour of the Plaintiff. Since April 2022, the local PRC management has been verbally notified by the relationship manager of China Construction Bank Chengwu Branch that the bank has started the internal procedure to sell the overdue debts of Meisen (Shandong) and Dasen (Heze) to a Shandong asset management company. In early August 2022, the local PRC management was being notified that the sale was completed and the Shandong asset management company being the creditor of the overdue debts. In December 2022, a Zhejiang asset management company became the new creditor after they purchased the debts from the Shandong asset management company

On 11 April 2023, Dasen (Heze) and Meisen (Shandong) received notices from the Court which stated that, among others, the Zhejiang asset management company had applied to the Court for the enforcement of the pledge under the outstanding overdue debts in the aggregate principal amount of approximately RMB16 million (the "Debts"), if each of Dasen (Heze) and Meisen (Shandong) fails to repay the unpaid principal amount, interest and costs of the action of claim within three days from the date of notice.

As at the date of this report, the Group is in negotiation with the asset management company regarding the disposal of the parcel of land and buildings located at Chengwu County Industrial Park of Heze, Shandong Province, the PRC (the "Disposal"). It is intended that the proceeds from the Disposal will be used for the repayment of the Debts and the Lawsuits will be fully settled following completion of the repayment.

Debt restructuring

References are made to the announcements of the Company dated 30 November 2020, 18 May 2021, 1 September 2021, 28 October 2021, 9 December 2021, 11 January 2022, 14 February 2022, 20 May 2022, 30 June 2022 and 20 January 2023 (the "Announcements") in relation to the debt restructuring. Unless otherwise stated, the terms used in this section have the same meanings as those defined in the Announcements.

As part of the Debt Restructuring, the Group restructured its debts by way of implementing the Creditors Scheme. The Creditors Scheme has been implemented in accordance with the terms as approved by the High Court and the Scheme Creditors to compromise all the Company's liabilities relating to the Bonds. The Debt Restructuring was completed on 6 January 2023.

Scheme of Arrangement

On 9 December 2021, the Creditors Scheme was approved by the requisite majorities of the Scheme Creditors at the Scheme Meeting and was subsequently sanctioned without modification by the High Court at the sanction hearing held on 11 January 2022. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, all Scheme Creditors are Independent Third Parties.

Upon the Creditors Scheme becoming effective, the Scheme Administrators will take steps to adjudicate the Scheme Claims and to distribute the Scheme Consideration to the Scheme Creditors on a pro rata basis based on the amounts of their admitted claims under the Creditors Scheme and discharge the debts of the Company including and not limiting to the claims from bond holders as disclosed in announcements of the Company published on 19 January 2021 and 20 July 2021.

Subject to the determination and adjudication by the Scheme Administrators under the Creditors Scheme, the Scheme Creditors shall receive the Scheme Consideration comprising the following:

(i) Cash Consideration in the aggregate amount of HK$15.2 million which shall be funded by the net proceeds from the Amended Open Offer to be distributed amongst the Scheme Creditors on the basis of the relative proportion of their respective admitted claims as compared to the total admitted claims under the Creditors Scheme;

(ii) Scheme Shares comprising 49,194,476 new Shares to be distributed amongst the Scheme Creditors on the basis of the relative proportion of their respective admitted claims as compared to the total admitted claims under the Creditors Scheme.

As part of the Creditors Scheme to solicit support and entice the Scheme Creditors, the Company had also issued and allotted the Consent Fee Shares of 10,020,501 Shares under the General Mandate to those Scheme Creditors, who entered into the restructuring support agreement in relation to the Scheme on or before 27 October 2021 and undertook to vote for the Scheme, on a pro rata basis based on their claims as admitted by the Scheme Administrators

Open Offer

On 8 January 2021, the Company proposed to raise approximately HK$29.2 million (before expenses) by way of an Open Offer on the basis of one (1) Offer Share for every two (2) existing Shares in order to fund the implementation of the Creditors Scheme.

On 1 September 2021, having considered (i) the estimated funding requirements for the implementation of the Proposed Restructuring; (ii) the prevailing market prices of the Shares; (iii) the attractiveness of the Open Offer to the Shareholders; (iv) compliance of public float requirement under the Listing Rules upon completion of the Open Offer; (v) the Group's financial position; (vi) the prevailing financial market conditions and economic outlook; and (vii) the reasons and benefits of the Open Offer, the Board has examined various subscription ratios and resolved to adjust the terms of the Open Offer which will then be implemented on the basis of three (3) Offer Shares for every five (5) Shares held on the Record Date by the Qualifying Shareholders at the Offer Price of HK$0.04 per Offer Share ("Amended Open Offer").

The Company completed the Amended Open Offer on 25 July 2022 and issued a total of 584,640,000 Offer Shares. All the proceeds of approximately HK$23.4 million raised have been utilised for settlement of the payment obligations under the Creditors Scheme and as working capital of the Group.

For further details, please refer to the prospectus of the Company dated 30 June 2022 and the announcement of the Company dated 22 July 2022.

Debt Capitalisation

On 20 January 2023, the Company entered into a settlement deed with a creditor of the Company, pursuant to which, among others, the Company has conditionally agreed to capitalise an aggregate amount of approximately HK$4,386,247 owed to the creditor by the Company, the creditor has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 73,104,116 capitalisation Shares at the issue price of HK$0.060 per capitalisation Share under the general mandate. The capitalisation Shares was allotted and issued by the Company on 21 April 2023.

Convertible Bonds

On 3 March 2023, the Company entered into a placing agreement with a placing agent in relation to the placing of convertible bonds with an aggregate principal amount of up to HK$9,000,000. On 23 March 2023, the convertible bonds with an aggregate principal amount of HK$7,800,000 have been issued by the Company to eight placees. The convertible bonds carries an interest of 10% which is payable on a semi-annual basis in arrears from the date of issue, and will mature on 23 March 2025. The conversion price is HK$0.15 per convertible bonds and the holders are entitled to convert them into ordinary Shares on the maturity date.

The Company received net proceeds of approximately HK$7.6 million and approximately HK$5.8 million (equivalent to approximately RMB5.1 million) has been used for the capital injection to a 51% owned subsidiary, namely Shenzhen Vfuchong Qucheng Technology Co., Ltd.*（深圳市微付充趣程科技有限公司）(the "Shenzhen Vfuchong") and the remaining HK$1.8 million has been utilised for general working capital of the Group.

Income tax

The Group's income tax for the fifteen months ended 31 March 2023 was nil (year ended 31 December 2021: approximately RMB41,000), as per tax assessment from local government.

Security on assets

As at 31 March 2023, certain assets of the Group with an aggregated carrying value of approximately RMB69.5 million were pledged to the bank as security for the loan facility (31 December 2021: RMB83.9 million).

Reference is made to the announcements of the Company dated 25 November 2021, 10 December 2021 and 4 January 2022 in relation to the discovery of the unrecorded pledge of assets (the "Unrecorded Pledge Announcements"). Capitalised terms used in this section shall have the same meaning as those defined in the Unrecorded Pledge Announcements unless otherwise specified.

As disclosed in the Unrecorded Pledge Announcements, it has come to the attention of the Board that certain the Pledged Assets of the Group (i.e. a property with an aggregate floor area of approximately 22,827 square meters and land use right of the Group for certain land parcels with an aggregate floor area of approximately 46,077 square meters held by Meisen (Shandong), with a carrying value of approximately RMB28.18 million and a fair value of approximately RMB17.35 million as at 31 October 2021) have been pledged to a branch of Rural Commercial Bank of Shandong Chengwu (i.e. "Lender") in relation to a Loan Facility provided to 菏澤中眾合市場開發有限公司 (an Independent Third Party established in the PRC, the "Borrower") by the Lender, without the knowledge and prior approval of the Board. Based on the findings of the Audit Committee, it transpired that the pledge of the Pledged Assets was an attempt by the management of a subsidiary of the Group to obtain financing indirectly from the Lender through the Borrower in order to renew a defaulted bank loan of the same financial institution (i.e. the Lender). Based on the information available to the Board, the Borrower has drawn down a total amount of RMB9,500,000 under the Loan Facility for its own use. The entire sum of which had been subsequently provided to another subsidiary of the Company by way of loan between June 2021 and September 2021 before the terms of the renewal of the Meisen (Shandong) defaulted loan was agreed with the Lender.

After due and careful review on the findings of the Audit Committee on the Pledged Assets, the Board is of the view that the pledge of Pledged Assets to obtain the Loan Facility is not appropriate and resolved to terminate the Pledge Arrangement Agreement.

The Group's Audit Committee as well as independent external internal control consultant have also concluded that this is an one-off event in the violation of the Groups' internal control procedures and no other violations are found.

As at 31 March 2023, the Company has made a partial repayment of RMB1.0 million of this third party loan as well as to enter into an agreement with 菏澤中眾合市場開發有限公司 to terminate the pledge arrangement upon full repayment of the remaining balance. As at the date of this report, the Group is in negotiation with an independent third party regarding the Disposal. It is intended that part of the proceeds from the Disposal will be used for the repayment of this third party loan and it is expected that following the repayment, the pledge arrangement will no longer involve a third party but with the bank directly.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 March 2023 (31 December 2021: Nil).

CAPITAL COMMITMENTS

As at 31 March 2023, the Group had no capital commitments contracted but not provided for (31 December 2021: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the fifteen months ended 31 March 2023, save as disclosed elsewhere in this annual report, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

EMPLOYEES AND REMUNERATION POLICIES

The total salaries and related costs granted to employees, including directors' emoluments amounted to approximately RMB5.8 million for the fifteen months ended 31 March 2023.

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 central pension scheme operated by the local municipal government in Mainland China.

DIVIDENDS AND DISTRIBUTION

The Board did not recommend the payment of a final dividend to shareholders for the fifteen months ended 31 March 2023 (31 December 2021: Nil).

The Board did not declare an interim dividend to shareholders for the fifteen months ended 31 March 2023 (31 December 2021: Nil).

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") has been established in compliance with Rules 3.21 and 3.22 of the Listing Rules with written terms of reference in-compliance with the CG Code. The primary responsibilities of the Audit Committee are to review and monitor the financial reporting and internal control and risk management principles of the Group and to assist the Board to fulfill its responsibilities over audit. The Audit Committee has reviewed and confirmed the accounting principles and practices adopted by the Group and discussed the auditing, internal control, risk management and financial reporting matters. The annual results of the Group for the fifteen months ended 31 March 2023 have also been reviewed by the Audit Committee.

As at 31 March 2023, the Audit Committee consists of three independent non-executive Directors, namely Mr. Chan Shiu Yuen Sammy, Mr. Kwok Yiu Tong and Ms. Lo Yuk Yee and one non-executive Director, namely Mr. Sun Yongtao.

Mr. Chan Shiu Yuen Sammy serves as the chairman of the Audit Committee. The annual results of the Company for the fifteen months ended 31 March 2023 has been reviewed by the Audit Committee.

THE AUDIT MODIFICATION

Confucius International CPA Limited issued a disclaimer of opinion with multiple uncertainties relating to going concern on the consolidated financial statements of the Group for the fifteen months ended 31 March 2023. The Independent Auditor's Report is set on pages 50 to 52 of this report.

The Directors have reviewed the Group's cash flow projections prepared by management, covering a period of not less than twelve months from the date of this report, and are of the view that, taking into account the below 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 this report. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The Directors have undertaken substantial work to improve the Group's liquidity and financial position, refinance its operations and restructure its debts for the fifteen months ended 31 March 2023.

The Creditors Scheme

As part of the Debt Restructuring, the Group restructured its debts by way of implementing the Scheme. The Creditors Scheme has been implemented in accordance with the terms as approved by the High Court and the Scheme Creditors to compromise all the Company's liabilities relating to the Bonds. The Debt Restructuring was completed on 6 January 2023.

On 9 December 2021, the Creditors Scheme was approved by the requisite majorities of the Scheme Creditors at the Scheme Meeting and was subsequently sanctioned without modification by the High Court at the sanction hearing held on 11 January 2022. Upon the Creditors Scheme becoming effective, the Scheme Administrators will take steps to adjudicate the Scheme Claims and to distribute the Scheme Consideration to the Scheme Creditors on a pro rata basis based on the amounts of their admitted claims under the Creditors Scheme and discharge the debts of the Company including and not limiting to the claims from bond holders as disclosed in announcements of the Company published on 19 January 2021 and 20 July 2021.

The Open Offer

On 1 September 2021, the Board resolved to modify the Open Offer and the Company completed the Amended Open Offer on 25 July 2022 and issued a total of 584,640,000 Offer Shares. The total proceeds raised from the Amended Open Offer was approximately HK$23.4 million. Among the total net proceeds of HK$23.4 million, approximately HK$20 million has been used for settlement of the payment obligations under the Creditors Scheme, and the remaining proceeds of approximately HK$3.4 million has been used for working capital of the Group.

For further details, please refer to the prospectus of the Company dated 30 June 2022 and the announcement of the Company dated 22 July 2022.

Debt Capitalisation

On 20 January 2023, the Company entered into a settlement deed with a creditor of the Company, pursuant to which, among others, the Company has conditionally agreed to capitalise an aggregate amount of approximately HK$4,386,247 owed to the creditor by the Company, the creditor has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue 73,104,116 capitalisation Shares at the issue price of HK$0.060 per capitalisation Share under the general mandate. The capitalisation Shares was allotted and issued by the Company on 21 April 2023. The Group may further negotiate with other creditors of the Group for settlement of their debts through capitalisation issues.

Convertible Bonds

On 3 March 2023, the Company entered into a placing agreement with a placing agent in relation to the placing of convertible bonds with an aggregate principal amount of up to HK$9,000,000. On 23 March 2023, the convertible bonds with an aggregate principal amount of HK$7,800,000 have been issued by the Company to eight placees. The convertible bonds carries an interest of 10% which is payable on a semi-annual basis in arrears from the date of issue, and will mature on 23 March 2025. The conversion price is HK$0.15 per convertible bonds and the holders are entitled to convert them into ordinary Shares on maturity date.

The Company received net proceeds of approximately HK$7.6 million and approximately HK$5.8 million (equivalent to approximately RMB5.1 million) has been used for the capital injection to Shenzhen Vfuchong and the remaining HK$1.8 million has been utilised for general working capital of the Group.

Disposal of Certain Assets of the Group

Since March 2021, the Company conducted in depth discussions with a number of potential independent buyers on possible disposal of certain assets of the Group to repay the Group's bank borrowings in its PRC subsidiaries. As at the date of this report, the Group is in negotiation with an independent third party regarding the Disposal. It is intended that part of the proceeds from the disposal will be used for the repayment of loan and the remaining proceeds will be utilised for general working capital of the Group.

Financial Support from Major Shareholders

The Company has received financial support from major shareholders in terms of cash advances made to support the Restructuring. The Company will continue to discuss with the major shareholders for other forms of financial support such as providing guarantees for new bank borrowings to be obtained in Hong Kong and China.

Fund Raising Exercises

The Company will consider various fund raising exercises to reduce its debt level, including but not limited to open offer, rights issue, placing of new Shares to independent individuals, corporate and/or institutional and professional investors and/or debt capitalisation, depending on the then prevailing market conditions. As at the date of this report, no agreement has been entered in respect of any fund raising exercises.

Extension of Repayment Period of Other Loans

As at the date of this report, the Group is in discussion with the lenders of certain defaulted other loans of the Group, including, among others, the loan from an independent third party in the PRC in the amount of RMB8,500,000 which was due for repayment in June 2022, and the two borrowings from an independent third party in Hong Kong in the amount of HK$650,000 (equivalent to approximately RMB569,000) which was due for repayment in May and June 2022, on the extension of the repayment period of the defaulted loans. It is intended that the defaulted loans would be extended for a period of no less than 12 months from the date of extension.

New Business Initiatives

One of the uncertainties that may affect the going concern basis used in the consolidated financial statements of the Group for the fifteen months ended 31 March 2023 is the outcome of, among other things, whether the Group can successfully roll out the new business of Shenzhen Vfuchong, implement new measures to improve sales such as rolling out new business initiatives with products of higher profit margin under the plywood business, control costs, contain capital expenditures, and accelerate the collection of trade and other receivables so as to enhance the Group's working capital position. The Group has already made some progress in these areas in 2022, in particular on the restructuring of the debts position of the Group which is reflected in the financial performance in the fifteen months ended 31 March 2023 and the financial position as at 31 March 2023. The Group will continue to accelerate the improvements in the coming year.

With the improvement in financial position and replenishment of liquidity, the Group is prepared to turn a new page in its business development. For the plywood business, the Group is in discussions with a new business partners to develop new products with higher margin and export such products to the Asian countries, especially Japan. On the other hand, in March 2023, the Group entered into a joint venture agreement with Shenzhen Vfuchong Technology Co., Ltd.*(深圳市微付充科技有限公司)and Shenzhen Qucheng Tongchuang Technology Enterprise (Limited Partnership)*(深圳市趣程同創科技企業(有限合夥)) in relation to the operation of Shenzhen Vfuchong. Shenzhen Vfuchong will be engaged in the operation of a hotel virtual room card system and an e-commerce membership club platform. As at the date hereof, Shenzhen Vfuchong is in discussion with certain major hotel operators for the development of their hotel virtual room card systems. In addition, the app of an e-commerce membership club platform has been developed and is expected to launch in August 2023. It is expected that Shenzhen Vfuchong will broaden the income stream of the Group and begin to generate revenue during the year ending 31 March 2024. Following the development and establishment of presence by Shenzhen Vfuchong in the industry, the Directors expect that Shenzhen Vfuchong would be able to contribute a new revenue stream to the Group and turnaround the Group's loss making position. Our management team will strive to develop the new export business for the plywood products and the business of Shenzhen Vfuchong while maintaining stringent cost control measures.

Taking into consideration the action plan (as set out in the sections above) suggested by the Directors, the management of the Company (the "Management") and the audit committee of the Company are of the view that, barring unforeseen circumstances, the Audit Modification relating to going concern can be removed and will be removed in the next financial year (i.e. the year ending 31 March 2024).

ADDITIONAL DETAILS RELATING TO THE PROVISIONS FOR IMPAIRMENT

(I) Financial Assets

For the fifteen months ended 31 March 2023, the Company recognized a provision for allowance for expected credit losses of trade receivables of RMB124.5 million due to the recoverability of outstanding receivables from the Group's downstream customers, an increase of RMB19.9 million from the year ended 31 December 2021.

During the course of preparing for the annual results for the fifteen months ended 31 March 2023, the Management conducted an impairment assessment together with Peak Vision Appraisals Limited, an independent firm of valuer (the "Valuer") on the trade receivables of the Group's customers. The Management considered indicators such as the debtor failing to agree with the Company as to a viable repayment plan, and any failure by the debtor in meeting its contractual repayment obligations within its credit period. Certain provisions for impairment on trade receivables were made by the Management as it cannot reasonably expect those receivables to be recoverable based on the expected credit loss analysis.

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

In arriving at the provision amount for impairment of trade receivables, the Management together with its Valuer assessed the expected credit losses for grouped trade receivables based on shared credit risk characteristics, the amount of days past due and the expected time required for collection. The expected loss rates were considered based on the payment profiles of customers and the corresponding historical credit losses experienced within this reporting period. The historical loss rates were adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Management also considered the business, financial or economic conditions, performance and behaviour of customers, and adjusted the historical loss rates based on expected changes in these factors accordingly. The Management has also considered the probability of default ("PD") and potential loss given default ("LGD") in its analysis. In assessing the expected loss rate, the Group calculated the PD and LGD for each class of accounts receivables by incorporating forward-looking adjustments.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2021 and the fifteen months ended 31 March 2023 are set out in Notes 4, 6 and 21 to the consolidated financial statements.

The Board, having considered the characteristics and profile of the Group's customers which have remained relatively the same in previous period, concluded that the basis of assessment adopted for the fifteen months ended 31 March 2023 (being the basis which has been adopted and applied consistently by the Group in previous periods) is appropriate.

(II) Property, plant and equipment

For the fifteen months ended 31 March 2023, the Company did not recognise any impairment charge on property, plant and equipment as the property, plant and equipment were transferred to investment properties since the Group has slowed down the business scale of the plywood segment and decided to rent out most of the plant to independent third parties for earning leasing income.

(III) Investment Properties

For the fifteen months ended 31 March 2023, the Company recognised an impairment charge on investment properties of RMB10.9 million with reference to the valuations performed by the Valuer.

In valuing the property, plant and equipment that were transferred to investment properties, the Valuer estimated the value in use of the Group's assets by estimating the future cash inflows and outflows to be derived from continuing use of the assets and from its ultimate disposal; and applying the discount to those future cash flows.

Accordingly, the estimation of value in use focuses on the economic benefits generated by the income producing capability of the Group's plywood business.

Details of impairment assessment of property, plant and equipment and the investment properties for the year ended 31 December 2021 and the fifteen months ended 31 March 2023 are set out in Note 17 and 18 to the consolidated financial statements, respectively.

The Board concluded that the basis of assessment adopted for the fifteen months ended 31 March 2023 is appropriate.

In valuing the investment properties of the Group, the Valuer has adopted the Investment Method by taking into account the current rents passing the reversionary income potential of the properties or, where appreciate, the Direct Comparison Method assuming the properties are capable of being sold in their existing states and by making reference to comparable sales evidence as available in the relevant markets.

In arriving at the apportionment of the reported value between the land element and the improvements as at the Valuation Date for each of the properties, the Valuer has made assessment of the value of the land element for existing use, and deducted this from the value of the whole property to arrive at the apportioned value for the improvements.

Details of impairment assessment of investment properties for the year ended 31 December 2021 and the fifteen months ended 31 March 2023 are set out in Note 18 to the consolidated financial statements.

The Board concluded that the basis of assessment adopted for the investment properties for the fifteen months ended 31 March 2023 which was consistent with the basis adopted for the year ended 31 December 2021 is appropriate.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Company for the period from 1 January 2022 to 31 March 2023.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in Note 36 to the consolidated 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, these can be found in the *Management Discussion and Analysis* section set out on pages 10 to 25 and the audited consolidated financial statements set out on pages 53 to 133 of this annual report. This discussion forms part of this annual report.

RESULTS AND DIVIDENDS

The Group's loss for the period from 1 January 2022 to 31 March 2023 and the Group's consolidated statement of financial position at that date are set out in the consolidated financial statements on pages 53 to 55 of this annual report.

The Directors do not recommend the payment of any dividends for the period from 1 January 2022 to 31 March 2023 (year ended 31 December 2021: Nil).

USE OF PROCEEDS FROM OPEN OFFER AND ISSUANCE OF CONVERTIBLE BONDS

The Open Offer

The Group has successfully issued and allotted 584,640,000 new Shares at HK$0.04 per Share on 25 July 2022 through an open offer to existing Shareholders. The net price of the newly placed Shares after deducting directly attributable costs were approximately HK$0.04. The aggregate nominal value of the newly placed Shares was HK$5,846,400 and the closing price of the Share on 10 June 2022, the date on which the terms of the open offer were fixed, was HK$0.119. The Company received net proceeds of approximately HK$23.2 million, which would be used to (i) fund the implementation of the scheme of arrangement made between the Company and the creditors of the Company who had a claim against the Company in relation to certain bonds issued by the Company; (ii) reduce debt level of the Group; and (iii) raise additional working capital to sustain the Group's continuing operations. All net proceeds have been utilised as intended during the period from 1 January 2022 to 31 March 2023.

The table below sets out the proposed application and the status of utilisation of the net proceeds from the Open Offer as at 31 March 2023:

	Planned HK$'000	Net proceeds utilised as at 31 March 2023 HK$'000
Implementation of Scheme of Arrangement and Relating costs	20,000	(20,000)
General working capital	3,200	(3,200)
	23,200	(23,200)

The Convertible Bonds

The Group has successfully completed the issuance of convertible bonds with an aggregate principal amount of HK$7.8 million on 24 March 2023 and raised net proceeds of approximately HK$7.6 million. The net proceeds are intended to be used as to approximately HK$5.8 million (equivalent to approximately RMB5.1 million) for the capital injection into Shenzhen Vfuchong and with the remaining HK$1.8 million for general working capital of the Group.

The table below sets out the proposed application and the status of utilisation of the net proceeds from the issuance of convertible bonds as at 31 March 2023:

	Planned HK$'000	Net proceeds utilised during the period HK$'000	Net proceeds unutilised as at 31 March 2023 HK$'000
Capital injection into the Shenzhen joint venture	5,800	–	5,800 (Note 1)
General working capital	1,800	(1,800)	–
	7,600	(1,800)	5,800

Note 1: Such remaining net proceeds have been fully utilised as intended as at the date of this report.

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 134 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 period from 1 January 2022 to 31 March 2023.

EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period are set out in note 38 to the consolidated financial statements.

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 March 2023, 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 RMB233,241,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the period under review, sales to the Group's five largest customers and the largest customer accounted for approximately 51.3% and 12.8% respectively of the total sales for the period from 1 January 2022 to 31 March 2023, and the Group's five largest suppliers and the largest supplier accounted for approximately 42.9% and 8.6% of the total purchase for the period from 1 January 2022 to 31 March 2023.

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 and five largest suppliers.

DIRECTORS

The Directors during the period were:

Executive Directors
Mr. CHAI Kaw Sing
Mr. WONG Ben
Mr. ZHANG Ayang (Duties suspended)
Mr. WONG Wai Keung Frederick (Resigned on 24 January 2022)

Non-executive Director
Mr. SUN Yongtao (Chairman)
(Redesignated as non-executive Director and chairman with effect from 16 March 2022)

Independent non-executive Directors
Mr. CHAN Shiu Yuen Sammy (Appointed on 5 August 2022)
Mr. KWOK Yiu Tong (Appointed on 22 March 2022)
Ms. LO Yuk Yee
Mr. LO Kam Cheung Patrick (Resigned on 4 March 2022)
Mr. TSO Siu Lun Alan (Resigned on 5 September 2022)

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 7 to 9 of this annual report.

DIRECTORS' SERVICE CONTRACTS

No service agreements have been entered between the executive Directors and the Company, while each of the independent non-executive Directors have signed an appointment letter with the Company, The principal particulars of these letters of appointment are (i) for an initial fixed term of three years commencing from the appointment date for the independent non-executive Directors respectively, and (ii) are subject to termination in accordance with their respective terms. All Directors were appointed for a fixed period but subject to retirement from office and re-election at the annual general meeting of the Company in accordance with the Articles.

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.

EMPLOYEE AND EMOLUMENT POLICY

The Group has 32 employees in Hong Kong and Mainland China as at 31 March 2023. The total salaries and related costs granted to employees, including directors' emoluments amounted to approximately RMB5.8 million for the period from 1 January 2022 to 31 March 2023.

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 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.

PERMITTED INDEMNITY PROVISION

During the period from 1 January 2022 to 31 March 2023, 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 or 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 period from 1 January 2022 to 31 March 2023.

CONNECTED TRANSACTIONS

All of the Group's related party transactions for the period from 1 January 2022 to 31 March 2023 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 March 2023, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules ("Model Code") were as follows:

(a) Interests of Directors

	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**
CHAI Kaw Sing	94,123,045	26,080,000	120,203,045	7.43%
ZHANG Ayang	–	107,844,800	107,844,800	6.66%

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.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Option 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 Option 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 Option 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 Option 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 Option 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 Option Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the Option 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 Option 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 period 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

	Number of Shares held, capacity and nature of interest			Percentage of the Company's share capital
	Directly beneficially owned	Interests in persons acting in concert (Note 1)	Total	
Name				
WONG Tseng Hon	864,686,442	–	864,686,442	53.4%
Concert party group				
WU Haiyan	47,539,200	60,305,600	107,844,800	6.66%
WANG Songmao	40,465,600	67,379,200	107,844,800	6.66%
WU Shican	19,680,000	88,164,800	107,844,800	6.66%
LIN Qingxiong	160,000	107,684,800	107,844,800	6.66%

Note 1:

Pursuant to the concert party agreement dated 3 March 2016 and entered into among KE Mingcai, CAI Jinxu, WANG Songmao, LIN Qingxiong, WU Shican and WU Haiyan, they have agreed on certain arrangements pertaining to their shareholdings in the Company.

Save as disclosed above, as at 31 March 2023 , there was no other person who had an interest or short position in the Shares, underlying shares (in respect of positions held pursuant to equity derivatives) and debentures which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, beneficially interested in 5% or more of the issued voting shares of the Company; or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

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 38 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 March 2023 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.

AUDITOR

PricewaterhouseCoopers resigned as auditor of the Company with effect from 10 November 2021 and Confucius International CPA Limited was appointed as auditor of the Company with effect from 24 February 2022 to fill the causal vacancy and to hold office until the conclusion of the forthcoming annual general meeting of the Company (the "AGM"). Save as disclosed above, there were no other changes of auditor of the Company in the preceding year.

The consolidated financial statements for the year ended 31 March 2023 were audited by Confucius International CPA Limited ("Confucius"). A resolution for the re-appointment of Confucius as auditor of the Company is to be proposed at the AGM.

ON BEHALF OF THE BOARD

Sun Yongtao
Non-Executive Chairman and Non-Executive Director

Hong Kong
30 June 2023

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 the fifteen months ended 31 March 2023.

BOARD OF DIRECTORS

Board composition

The Board currently comprises seven Directors, including three executive Directors, one non-executive Director and three independent non-executive Directors. As at the date of this report, the Board comprises the followings Directors:

Executive Directors

Mr. CHAI Kaw Sing
Mr. WONG Ben
Mr. ZHANG Ayang (duties suspended)

Non-executive Director

Mr. SUN Yongtao

Independent non-executive Directors

Mr. KWOK Yiu Tong
Ms. LO Yuk Yee
Mr. CHAN Shiu Yuen Sammy

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 fifteen months ended 31 March 2023, 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 period 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. ZHANG Ayang	Reading materials/attending training course
Ms. LO Yuk Yee	Reading materials/attending training course
Mr. CHAN Shiu Yuen Sammy	Reading materials/attending training course

Chairman and Chief Executive

Mr. SUN Yongtao currently serves as the non-executive Chairman of the Board and the Company has not appointed the chief executive officer of the Company. Such appointment ensures a clear distinction between the management of the Board and the management of the business operation of the Company.

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 fifteen months ended 31 March 2023.

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 auditor, 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. CHAN Shiu Yuen Sammy and the other members of the audit committee are Mr. SUN Yongtao, Ms. LO Yuk Yee and Mr. KWOK Yiu Tong. Mr. KWOK Yiu Tong, Ms. LO Yuk Yee and Mr. CHAN Shiu Yuen Sammy are independent non-executive Directors and Mr. SUN Yongtao is a non-executive Director.

The work performed by the audit committee during the fifteen months ended 31 March 2023 comprises the following:

- reviewing the annual results and the annual report of the Group;
- reviewing the interim results and the interim report of the Group;
- 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 system of internal control; and
- reviewing the Group's accounting policies and practices.

Remuneration committee

The remuneration committee is mainly responsible for the following:

- 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;
- reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- determining, with delegated responsibility, the remuneration packages of individual executive Directors and senior management, or making recommendations to the Board on the remuneration packages of individual executive Directors and senior management;
- making recommendations to the Board on the remuneration of non-executive Directors;
- considering salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
- reviewing and approving compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
- ensuring that no director or any of his/her associates is involved in deciding his/her own remuneration; and
- reviewing and/or approving matters relating to share schemes under Chapter 17 of the Listing Rules.

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. CHAN Shiu Yuen Sammy. The majority of the remuneration committee members are independent non-executive Directors. Ms. LO Yuk Yee and Mr. CHAN Shiu Yuen Sammy are independent non-executive Directors and Mr. SUN Yongtao is a non-executive Director.

The work performed by the remuneration committee during the fifteen months ended 31 March 2023 comprises the following:

- reviewing the policy for the remuneration of 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. SUN Yongtao and other members of the nomination committee are Mr. CHAN Shiu Yuen Sammy and Ms. LO Yuk Yee. Ms. LO Yuk Yee and Mr. CHAN Shiu Yuen Sammy are independent non-executive Directors and Mr. SUN Yongtao is a non-executive Director.

The work performed by the nomination committee during the fifteen months ended 31 March 2023 included reviewing the policy for the nomination of Directors.

Board Diversity Policy

The Board recognises the importance of diversity in the Board composition and has adopted a board diversity policy which sets out the approach to achieve a sustainable and balanced development of the Company and also to enhance the quality of performance of the Company. In designing the Board's composition, selection of candidates has been considered from a number of perspectives and measurable objectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services and time to be devoted as a director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision is based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee has considered and reviewed the composition and diversity of the Board. All the executive Directors and non-executive Director possess extensive and diversified experience in management and industrial experience. The three independent non-executive Directors possess professional knowledge in management, finance, accounting and legal aspects. The Nomination Committee will review the board diversity policy, as appropriate, to ensure its effectiveness.

The Nomination Committee recognises that the gender diversity of the Board and will continue to use its best efforts, to train, retain, attracts and select suitable female candidates that can contribute success to the Group. As at the date of this report, the Board comprises six male Directors and one female Director.

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 risk management control system of the Group.

The risk management committee is currently chaired by Mr. SUN Yongtao and the other members of the risk management committee are Ms. LO Yuk Yee and Mr. CHAN Shiu Yuen Sammy, Ms. LO Yuk Yee and Mr. CHAN Shiu Yuen Sammy are independent non-executive Directors and Mr. SUN Yongtao is a non-executive Director.

The work performed by the risk management committee during the fifteen months ended 31 March 2023 included reviewing the Group's risk management control system.

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 fifteen months ended 31 March 2023 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	8/8	N/A	N/A	N/A	1/1	1/1
Mr. WONG Ben	8/8	N/A	N/A	N/A	N/A	1/1
Mr. WONG Wai Keung Frederick *(Resigned on 24 January 2022)*	N/A	N/A	N/A	N/A	N/A	N/A
Mr. ZHANG Ayang (Duties suspended)	8/8	N/A	N/A	N/A	N/A	1/1
Non-executive Director						
Mr. SUN Yongtao (Note)	8/8	2/2	2/2	2/2	1/1	1/1
Independent non-executive Directors						
Mr. CHAN Shiu Yuen Sammy *(appointed on 5 August 2022)*	3/3	2/2	N/A	N/A	N/A	N/A
Ms. LO Yuk Yee	6/8	1/3	2/2	2/2	N/A	1/1
Mr. TSO Siu Lun Alan *(Resigned on 5 September 2022)*	7/7	1/2	2/2	2/2	N/A	1/1
Mr. LO Kam Cheung Patrick *(Resigned on 4 March 2022)*	N/A	N/A	N/A	N/A	N/A	N/A
Mr. KWOK Yiu Tong	6/7	3/3	N/A	N/A	N/A	1/1

Note: Mr. SUN Yongtao was subsequently redesignated as non-executive chairman and non-executive Directors on 16 March 2022.

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 fifteen months ended 31 March 2023 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 Note 11 to the consolidated financial statements.

AUDITOR'S REMUNERATION

Confucius International CPA Limited has been appointed as the auditor of the Company in respect of the audit of the consolidated financial statements of the Company for the fifteen months ended 31 March 2023. Non-audit services, including other assurance engagement and agreed upon procedures, have been provided by Confucius International CPA Limited to the Group during the fifteen months ended 31 March 2023.

An analysis of the fees paid or payable to Confucius International CPA Limited in relation to services rendered to the Company for the fifteen months ended 31 March 2023 is as follows:

	RMB'000
Audit services	1,250
Non-audit services	830
	2,080

COMPANY SECRETARY

Mr. Leung Wing Lun, an external service provider, has been engaged by the Company as its company secretary. The primary corporate contact persons at the Company are Mr. Chai Kaw Sing, the executive Director of the Company. The biographical details of Mr. Leung are set out under the section headed "Biographical Details of Directors and Senior Management" in this annual report.

During the fifteen months ended 31 March 2023, the company secretary of the Company had confirmed that he had taken no less than 15 hours of relevant professional training in compliance with the Listing Rules.

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 fifteen months ended 31 March 2023.

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.

Auditor's responsibilities

The reporting responsibilities of the Company's auditor with regard to the consolidated financial statements of the Group are set out on page 52 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 fifteen months ended 31 March 2023 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.

MATERIAL UNCERTAINTIES RELATING TO GOING CONCERN

For the fifteen months ended 31 March 2023, the Group incurred a net loss of RMB51,770,000 and recorded a net operating cash outflow of RMB13,194,000. As at 31 March 2023, the Group recorded net current liabilities of RMB43,351,000, where the Group's current borrowings amounted to RMB37,736,000, comprising bank borrowing of RMB8,500,000 and other loans of RMB29,236,000 from independent third parties in the PRC and Hong Kong, while the Group's cash and cash equivalents amounted to RMB6,939,000 only.

In respect of other loans in the PRC, the Group defaulted to repay three borrowings from a bank in the PRC, totaling RMB18,900,000, which was due for repayment in January and February 2021. During the year ended 31 December 2021, the bank filed a petition to the People's Court in Chengwu County of Shandong Province (the "Court") for the repayment of the loans and interest accrued and the Court ordered the repayment of the principal amount and the interest accrued within the time specified. During the fifteen months ended 31 March 2023, the bank sold the defaulted loans to an asset management company. Such bank borrowings were therefore reclassified as other loans in the consolidated statement of financial position during the period. On 11 April 2023, the Group received notices from the Court which stated that the asset management company had applied to the Court for the enforcement of the pledge under the loans. Apart from the aforesaid loans, the Group defaulted to repay the borrowing from an independent third party in the PRC, totaling RMB8,500,000, which was due for repayment in June 2022.

In respect of other loans in Hong Kong, the Group defaulted to repay two borrowings from an independent third party in Hong Kong, totaling HK$650,000 (approximately RMB569,000), which was due for repayment in May and June 2022.

In respect of the bank borrowing of RMB8,500,000 in the PRC, the default in repayment of the aforesaid other loans entitled the bank lender a right to demand immediate repayment of the bank borrowing from the Group. Accordingly, the Directors consider the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

The Directors haven undertaken substantial work for improving the Group's liquidity and financial position, including adopting the Scheme of Arrangement, an open offer, debt capitalization, issuance of Convertible bonds, exploring the opportunity to dispose of the Group's certain assets, arranging financial support from major shareholders and exploring new business initiatives.

DISCLAIMER OF OPINION EXPRESSED BY THE COMPANY'S AUDITOR AND ADDRESS TAKEN BY THE BOARD

The detailed steps taken by the Board to address the disclaimer of opinion on multiple uncertainties relating to going concern expressed by the Company's auditor (the "Audit Qualification") since the publication of its 2021 annual report and the progress achieved

Since the publication of the 2021 annual report of the Company, the Board had taken the following actions to address the Audit Qualification:

(a) *The Creditors Scheme*

The Creditors Scheme has been implemented in accordance with the terms as approved by the High Court and completed on 6 January 2023. Upon the Creditors Scheme becoming effective, the Scheme Administrators had taken steps to adjudicate the Scheme Claims and to distribute the Scheme Consideration to the Scheme Creditors on a pro rata basis based on the amounts of their admitted claims under the Creditors Scheme and discharge the debts of the Company including and not limiting to the claims from bond holders, in the amount of approximately RMB35.0 million.

(b) *Amended Open Offer*

As part of the Debt Restructuring, the Company completed the Amended Open Offer on 22 July 2022 and raised net proceeds in a total amount of HK$23.4 million, among which approximately HK$15.2 million has been utilised for settlement of the payment obligations under the Creditors Scheme, approximately HK$4.8 million has been utilised for professional fees and costs relating to the Debt Restructuring and the Amended Open Offer and the remaining proceeds of approximately HK$3.4 million has been utilised as working capital of the Group.

(c) *Debt Capitalisation*

On 20 January 2023, the Company entered into a settlement deed with a creditor of the Company for the allotment and issue of 73,104,116 capitalisation Shares to capitalise an aggregate amount of RMB3,822,000 owed by the Company to the creditor. The Debt Capitalisation was completed on 21 April 2023. The Company is currently in negotiation with other creditors of the Group, namely Mr. Wong Tseng Hon, the controlling shareholder of the Company, and Mr. Chai Kaw Sing, an executive Director and a Shareholder, for settlement of a majority portion of their debts in the aggregate amount of approximately RMB7.5 million through capitalisation issues.

(d) *Convertible Bonds*

On 3 March 2023, the Company entered into a placing agreement with a placing agent in relation to the placing of convertible bonds. On 24 March 2023, the convertible bonds with an aggregate principal amount of HK$7,800,000 have been issued by the Company. The Company received net proceeds in a total amount of approximately HK$7.6 million from the placing of convertible bonds, among which approximately HK$5.8 million (equivalent to approximately RMB5.1 million) has been utilised for the capital injection into Shenzhen Vfuchong and the remaining approximately HK$1.8 million has been utilised as general working capital of the Group.

(e) *Disposal of certain assets of the Group*

Since March 2021, the Company has been in discussions with a number of potential independent buyers on possible disposal of certain assets of the Group to repay the Group's bank borrowings. As at the date of this report, the Group is in negotiation with an independent third party regarding the disposal of the parcel of land and buildings located at Chengwu County Industrial Park of Heze, Shandong Province, the PRC (the "Disposal"). The land and buildings are currently leased out and therefore the Disposal shall not affect the business operations of the Group. It is currently expected that the proceeds from the Disposal would amount to be no less than RMB20 million based on the best firm offer received and pending the other potential buyers' offer, and it is intended that part of the proceeds from the Disposal will be used for the repayment of loan and the remaining proceeds will be utilised as general working capital of the Group. Based on the current progress of the discussion, it is expected that the Disposal would materialise and complete by the end of 2023.

(f) *Financial support from major Shareholders*

The Company has received financial support from major Shareholders in terms of cash advances made to support the Debt Restructuring. The Company will continue to discuss with the major Shareholders for other forms of financial support such as providing guarantees for new bank borrowings to be obtained in Hong Kong and China. The Company is actively discussing with the Bank of East Asia for a bank facility line under the Hong Kong government supported SME Financing Guarantee Scheme for general working capital usage. Mr. Wong Tseng Hon has preliminarily agreed to provide his personal guarantee for the bank facility line, which is expected to be no more than HK$16.7 million.

(g) *Other fund raising exercises*

The Company is considering various further fund raising exercises to reduce its debt level, including but not limited to open offer, rights issue, placing of new Shares to independent individuals, corporate and/or institutional and professional investors and/or debt capitalisation, depending on the then prevailing market conditions. In particular, the Company is in contemplation of conducting a placing of convertible bonds to raise an amount of around HK$20 million to HK$30 million by the end of 2023. As at the date of this report, no agreement has been entered in respect of any fund raising exercises.

(h) *Extension of repayment period of other loans*

As at the date of this report, the Group is in discussion with the lenders of certain defaulted other loans of the Group, including, among others, the loan from an independent third party in the PRC in the amount of RMB8,500,000 which was due for repayment in June 3 2022, and the two borrowings from an independent third party in Hong Kong in the amount of HK$650,000 (equivalent to approximately RMB569,000) which was due for repayment in May and June 2022, on the extension of the repayment period of the defaulted loans. It is intended that the defaulted loans would be extended for a period of no less than 12 months from the date of extension.

(i) *New business initiatives*

The Directors are aware that the Group had been in gross loss and net loss for four consecutive years. During the fifteen months ended 31 March 2023, the Group had improved its gross loss margin by continuing to focus on clients with better margin and implemented cost control measures. Given the generally unfavourable outlook of the existing plywood business which focuses on low to mid-tier products and the raise in cost of raw materials, the Group is in discussions with a new business partner to develop new plywood products with higher margin and export such products to the Asian countries.

The prototype of the new product has been developed, where raw materials at a lower cost has been used for its production, and an additional coating has been applied on its surface. It is also contemplated that the appearance of the new product could be customised. It is expected that the usage of the new product would be significantly broader than the existing products, such as applying as floorings and walls of hotels and restaurants. As compared to the traditional products which generally had gross profit margin of less than 10%, the new product is expected to have gross profit margin of more than 20%. A partnership agreement has been entered into between the Group and the new business partner and this new business is expected to launch in 2023.

On the other hand, in March 2023, the Group entered into a joint venture agreement in respect of the development and operation of Shenzhen Vfuchong, which will be engaged in the operation of a hotel virtual room card system and an e-commerce membership club platform. It is expected that Shenzhen Vfuchong will broaden the income stream of the Group and begin to generate revenue and turnaround the gross loss position of the Group during the year ending 31 March 2024.

As set out in the Independent Auditor's Report, the basis for the Audit Qualification primarily includes (a) the net loss financial performance; (b) the low cash level and the net operating cash outflow for the fifteen months ended 31 March 2023; and (c) net current liabilities and indebtedness position as at 31 March 2023.

As stipulated above, certain measures that have been carrying out by the Board, including the disposal of certain assets of the Group, additional fund raising activities, discussion for the extension of repayment of loans and the development of the new business initiative, are still ongoing and could not be completed by 30 June 2023.

Nevertheless, it is stressed that as a result of the measures adopted and implemented, the financial performance and position of the Group had improved, including, among others, (a) the financial performance has improved with gross loss reduced from approximately RMB57.1 million for the year ended 31 December 2021 to approximately RMB5.1 million for the fifteen months ended 31 March 2023, and the loss for the corresponding period reduced from approximately RMB119.2 million to approximately RMB51.8 million; (b) the cash level is slightly replenished from approximately RMB3.3 million as at 31 December 2021 to approximately RMB6.9 million as at 31 March 2023; and (c) total borrowings reduced from approximately RMB62.6 million as at 31 December 2021 to approximately RMB37.7 million as at 31 March 2023.

Based on the above, the Directors are of the view that following completion of all the measures implemented by the Group, the financial performance and position of the Group would be further improved and the concerns of the auditor under the Audit Qualification would be addressed.

The Company's proposed action plan to address the Audit Qualification and the latest development/ progress

(a) the Disposal is in progress of discussion, where the drafting of a disposal agreement has been completed. Based on, among others, a preliminary value of the land, the recent property and financial market situation and the discussion with the potential purchaser, it is expected that the proceeds from the Disposal would amount to no less than RMB20 million, which shall be used to further reduce the debt level and replenish working capital of the Group.

(b) The Group is in discussion with certain creditors on possible account capitalisation exercise such that their balances would be settled through the issuance of capitalisation Shares. As at 31 March 2023, the Group owes approximately RMB6.4 million and RMB1.1 million to Mr. Wong Tseng Hon and Mr. Chai Kaw Sing, respectively. Mr. Wong Tseng Hon and Mr. Chai Kaw Sing are in principle agree to carry out account capitalisation for a majority portion of their balances, which is expected to take place by the end of 2023 and subject to the approval of the Shareholders.

(c) As at the date of this report, the Group is in discussion with the lenders of certain defaulted other loans of the Group, including the loan from an independent third party in the PRC in the amount of RMB8.5 million and the two borrowings from an independent third party in Hong Kong in the amount of HK$650,000. It is expected the Group would reach agreement with these lenders to extend the repayment period for a period of no less than 12 months from the date of extension by August 2023.

(d) The Company is actively discussing with the Bank of East Asia for a bank facility line for general working capital usage and Mr. Wong Tseng Hon, the controlling shareholder of the Company, has preliminarily agreed to provide his personal guarantee for the bank facility line, which is expected to be no more than HK$16.7 million. The facility is expected to be available by end of 2023, subject to new financial data to be provided to the bank after the publication of the next interim results.

(e) The Company is considering to conduct various fund raising exercises. Specifically, the Company is contemplating to conduct a placing of convertible bonds to raise around HK$20 million to HK$30 million by the end of 2023.

(f) A new plywood product is being developed with a new business partner. A prototype of the new product has been developed, and the mass production of the new product is expected to commence by end of 2023.

(g) As for Shenzhen Vfuchong, the app of the e-commerce membership club platform has been developed and is expected to launch in August 2023. It is expected that revenue would begin to generate from the app after its launch. Shenzhen Vfuchong is also in discussion with certain major hotel operators for the development of their hotel virtual room card systems. It is expected that agreement with a hotel operator would be signed in the third quarter of 2023 and commence to generate revenue to the Group. It is expected that Shenzhen Vfuchong will generate revenue of no less than RMB10.0 million for the year ending 31 March 2024.

Following completion of the measures above, the Directors expect that (a) the revenue stream of the Group will broaden by the export business and the revenue to be generated from Shenzhen Vfuchong, and thereby the financial performance of the Group would improve from gross loss to gross profit; (b) the cashflow will be improved by the income brought by the new businesses; (c) the level of debt would be further reduced following the repayment with the proceeds from the Disposal as well as debt capitalisation; and (d) the extension of repayment period of loans would ease the immediate repayment burden of the Group, and thereby improve the net current liabilities position (if all plans that are very likely to be completed are being achieved) or even turnaround to net current assets position (if the remaining plans are at least partially completed). Based on the above, the Directors consider that the Audit Qualification would be addressed.

The Audit Committee has reviewed the basis of the Audit Qualification and the above-mentioned measures to address and resolve the Audit Qualification. Taken into account of the measures to be implemented, the Audit Committee agreed with the Board's position concerning the Audit Qualification.

The Audit Committee has discussed with the auditor of the Company (the "Auditor") on the Audit Qualification and the measures to address them prior to the publication of this report. In the meeting, the Audit Committee were given to understand and agreed with the basis of the Audit Qualification. In respect of the measures to address the Audit Qualification as proposed by the Directors, the Auditor and the Audit Committee agreed that if the measures could be successfully implemented, the Audit Qualification would be addressed and be removed in the coming year.

Having discussed with the Directors and reviewed the measures and action plans to be implemented by the Group as stipulated above, the Auditor consider that the aforesaid measures and action plans will improve the financial performance and position of the Group and the Group will continue as a going concern for the foreseeable future if such measures and action plans could be fully and timely implemented by the Group. Therefore, it is expected that the Audit Qualification could be removed for the year ending 31 March 2024.

PAN-CHINA
天健國際會計師事務所有限公司
Confucius International CPA Limited
Certified Public Accountants

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TO THE SHAREHOLDERS OF DA SEN HOLDINGS GROUP LIMITED

(Incorporated in 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 (collectively referred to as the "Group") set out on pages 53 to 133, which comprise the consolidated statement of financial position as at 31 March 2023, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the fifteen months ended 31 March 2023, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit 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(b) to the consolidated financial statements, for the fifteen months ended 31 March 2023, the Group incurred a net loss of RMB51,770,000 and recorded a net operating cash outflow of RMB13,194,000. As at 31 March 2023, the Group recorded a net current liabilities of RMB43,351,000, where the Group's current borrowings amounted to RMB37,736,000, comprising bank borrowing of RMB8,500,000 and other loans of RMB29,236,000 from independent third parties in the People's Republic of China (the "PRC") and Hong Kong, while the Group's cash and cash equivalents amounted to RMB6,939,000 only. As at 31 March 2023, related interests of RMB5,356,000 and eleven other loans in the PRC and Hong Kong amounting to RMB27,888,000 in total were defaulted in repayment. The default in repayment of other loans entitled the bank lender a right to demand immediate repayment of the bank borrowing from the Group. These conditions 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(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.

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 plans and measures set out in Note 2(b), 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 respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

Up to the date of this report, no information or agreement is obtained about the approval from the bank and other loan lenders as to whether they will not exercise their right to demand immediate repayment of the balance or to extend the repayment. Accordingly, we were unable to obtain sufficient audit evidence about the appropriateness of the preparation of the consolidated financial statements on a going concern basis due to the combined effects of the multiple uncertainties described above.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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.

Those charged with governance are 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 Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Confucius International CPA Limited
Certified Public Accountants

Tsang Kwong Kin
Practising Certificate Number: P07368
Hong Kong
30 June 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FIFTEEN MONTHS ENDED 31 MARCH 2023

	Notes	Fifteen months ended 31 March 2023 RMB'000	Year ended 31 December 2021 RMB'000
Revenue	8	59,487	172,748
Cost of sales		(64,609)	(229,799)
Gross loss		(5,122)	(57,051)
Selling and distribution expenses		(424)	(1,140)
Administrative expenses		(22,482)	(16,883)
Allowance for expected credit losses, net		(19,934)	(22,629)
Other income, gains or (losses)	9	3,244	(17,662)
Finance costs	10	(7,052)	(3,745)
Loss before tax		(51,770)	(119,110)
Income tax expense	12	–	(41)
Loss and total comprehensive expenses for the period/year	13	(51,770)	(119,151)
Loss and total comprehensive expenses attributable to:			
Owners of the Company		(50,799)	(119,151)
Non-controlling interests		(971)	–
		(51,770)	(119,151)
			(restated)
Loss per share attributable to owners of the Company			
– Basic and diluted (expressed in RMB cents per share)	15	(3.47)	(9.17)

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2023

	Notes	31 March 2023 RMB'000	31 December 2021 RMB'000
ASSETS			
Non-current assets			
Right-of-use assets	16	**2,753**	7,352
Property, plant and equipment	17	**5,417**	37,425
Investment properties	18	**66,901**	45,160
Financial assets at fair value through profit or loss	19	**1,557**	–
		76,628	89,937
Current assets			
Inventories	20	**1,932**	5,116
Trade and other receivables	21	**62,579**	82,373
Cash and cash equivalents	22	**6,939**	3,259
		71,450	90,748
Total assets		**148,078**	180,685
EQUITY			
Share capital	23	**14,165**	8,592
Share premium	23	**233,241**	212,502
Other reserves	24	**52,942**	52,942
Convertible bonds equity reserves	24	**1,408**	–
Accumulated losses		**(274,715)**	(223,916)
Equity attributable to owners of the Company		**27,041**	50,120
Non-controlling interests		**(971)**	–
Total equity		**26,070**	50,120

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2023

	Notes	31 March 2023 RMB'000	31 December 2021 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income	27	235	267
Convertible bonds payable	30	6,972	–
		7,207	267
Current liabilities			
Trade and other payables	26	58,849	53,983
Deferred income	27	25	25
Receipt in advance	28	3,311	240
Tax payables		7,085	7,168
Amount due to related parties	29	7,795	6,235
Borrowings	25	37,736	62,647
		114,801	130,298
Total liabilities		122,008	130,565
Total equity and liabilities		148,078	180,685

The accompanying notes form an integral part of these consolidated financial statements.

The consolidated financial statements on pages 53 to 133 were approved and authorised for issue by the board of directors on 30 June 2023 and are signed on its behalf by:

CHAI Kaw Sing
Executive Director

WONG Ben
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FIFTEEN MONTHS ENDED 31 MARCH 2023

	Attributable to owners of the Company							
	Share capital (Note 23) RMB'000	Share premium (Note 23) RMB'000	Convertible bonds equity reserves (Note 24) RMB'000	Other reserves (Note 24) RMB'000	Accumulated losses RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2021	8,592	212,502	–	52,942	(104,765)	169,271	–	169,721
Loss and total comprehensive expenses for the year	–	–	–	–	(119,151)	(119,151)	–	(119,151)
At 31 December 2021 and 1 January 2022	8,592	212,502	–	52,942	(223,916)	50,120	–	50,120
Loss and total comprehensive expenses for the period	–	–	–	–	(50,799)	(50,799)	(971)	(51,770)
Recognition of equity component of convertible bonds	–	–	1,408	–	–	1,408	–	1,408
Issue of shares under open offer	5,028	15,083	–	–	–	20,111	–	20,111
Issue of shares under scheme arrangement	545	5,888	–	–	–	6,433	–	6,433
Transaction cost attributable to issue of shares	–	(232)	–	–	–	(232)	–	(232)
At 31 March 2023	14,165	233,241	1,408	52,942	(274,715)	27,041	(971)	26,070

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FIFTEEN MONTHS ENDED 31 MARCH 2023

	Notes	Fifteen months ended 31 March 2023 RMB'000	Year ended 31 December 2021 RMB'000
Operating activities			
Loss before tax		**(51,770)**	(119,110)
Adjustment for:			
Depreciation on right-of-use assets	16	**85**	256
Impairment loss on right-of-use assets	16	**–**	2,971
Depreciation on property, plant and equipment	17	**501**	2,406
Impairment loss on property, plant and equipment	17	**–**	15,019
Depreciation on investment properties	18	**3,375**	1,541
Impairment loss on investment properties	18	**10,858**	933
Gain on disposal of property, plant and equipment	9	**(133)**	(163)
Gain on debt-restructuring	9	**(14,755)**	–
Impairment loss on inventories, net of reversal	9	**140**	–
Amortisation of deferred income related to government grants	9	**(32)**	(25)
Write-off of other receivables	9	**–**	105
Allowance for expected credit losses on trade and other receivables, net	21	**19,934**	22,629
Exchange loss on financial assets at fair value through profit or loss and convertible bonds payable		**38**	–
Interest income	9	**(24)**	(5)
Finance costs	10	**7,052**	3,745
Operating cash flow before movements in working capital		**(24,731)**	(69,698)
Decrease in inventories		**3,044**	42,112
(Increase) decrease in trade and other receivables		**(140)**	6,247
Increase in trade and other payables		**10,812**	10,839
Increase in receipt in advance		**3,071**	240
Increase in amount due to related parties		**1,560**	5,646
Cash used in operation		**(6,384)**	(4,614)
Interest received		**24**	5
Interest paid	31	**(6,751)**	(2,111)
Income tax paid		**(83)**	(41)
Net cash used in operating activities		**(13,194)**	(6,761)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FIFTEEN MONTHS ENDED 31 MARCH 2023

	Notes	1 January 2022 to 31 March 2023 RMB'000	Year ended 31 December 2021 RMB'000
Investing activities			
Purchases of property, plant and equipment	17	–	(110)
Proceeds from disposal of property, plant and equipment		180	236
Additions to investment properties	18	–	(1,756)
Net cash from (used in) investing activities		180	(1,630)
Financing activities			
Proceeds from borrowings	31	13,151	18,500
Repayments of borrowings	31	(23,122)	(12,613)
Proceeds from convertible bonds	31	6,786	–
Proceeds from issue of shares	23	20,111	–
Transaction costs paid for issue of shares	23	(232)	–
Net cash from financing activities		16,694	5,887
Net increase (decrease) in cash and cash equivalents		3,680	(2,504)
Cash and cash equivalents at beginning of period/year		3,259	5,763
Cash and cash equivalents at end of period/year		6,939	3,259

The accompanying notes form an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Da Sen Holdings Group Limited ("the Company") is a limited liability company incorporated in the Cayman Islands. The addresses of its registered office and principal place of business are Cricket Square, Hutchins Drive, P.O. box 2681, Grand Cayman KY1-1111, Cayman Islands and Room 2703, 27th Floor, K. Wah Centre, No. 191 Java Road, North Point, Hong Kong, respectively. The Company's shares have been listed on The Stock Exchange of Hong Kong Limited since 19 December 2016.

The principal activities of the Company and its subsidiaries (the "Group") are set out in Note 36 to the consolidated financial statements.

Pursuant to a resolution of the board of directors dated 11 November 2022, the Group changed its financial year end date from 31 December to 31 March (the "Change"). This will enable the Group to rationalise and mobilise its resources with greater efficiency for the preparation of its interim and annual results announcements and reports given that the Change will allow the Group to:

(i) avoid competition of resources with other listed companies having a financial year end date of 31 December on results announcements and interim and annual reports related external services under the traditional peak market reporting season; and

(ii) better plan its audit schedules with its auditor by removing the uncertainty from the variation in the dates of the Chinese New Year and Easter holidays which put pressure on the workflow.

These consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company. All values are rounded to the nearest RMB thousand ("RMB'000"), unless otherwise used.

2 BASIS OF PREPARATION

(a) Compliance with International Financial Reporting Standards and Hong Kong Companies Ordinance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"). In addition, the consolidated financial statements include applicable disclosures required by the Hong Kong Companies Ordinance ("HKCO").

The accompanying consolidated financial statements for the current financial period cover a period of fifteen months from 1 January 2022 to 31 March 2023. The comparative figures presented for the audited consolidated statement of profit or loss and other comprehensive income, audited consolidated statement of changes in equity, audited consolidated statement of cash flows and related notes cover the audited figures of the financial year from 1 January 2021 to 31 December 2021 which may not be comparable with the amounts shown for the current period.

2 BASIS OF PREPARATION – *continued*

(b) Going concern basis

For the fifteen months ended 31 March 2023, the Group incurred a net loss of RMB51,770,000 and recorded a net operating cash outflow of RMB13,194,000. As at 31 March 2023, the Group recorded net current liabilities of RMB43,351,000, where the Group's current borrowings amounted to RMB37,736,000, comprising bank borrowing of RMB8,500,000 and other loans of RMB29,236,000 from independent third parties in the People's Republic of China (the "PRC") and Hong Kong, while the Group's cash and cash equivalents amounted to RMB6,939,000 only.

In respect of other loans in the PRC, the Group defaulted to repay three borrowings from a bank in the PRC, totaling RMB18,900,000, which was due for repayment in January and February 2021. During the year ended 31 December 2021, the bank filed a petition to the People's Court in Chengwu County of Shandong Province (the "Court") for the repayment of the loans and interest accrued and the Court ordered the repayment of the principal amount and the interest accrued within the time specified. During the fifteen months ended 31 March 2023, the bank sold the defaulted loans to an asset management company. Such bank borrowings were therefore reclassified as other loans in the consolidated statement of financial position during the period. On 11 April 2023, the Group received notices from the Court which stated that the asset management company had applied to the Court for the enforcement of the pledge under the loans. Apart from the aforesaid loans, the Group defaulted to repay the borrowing from an independent third party in the PRC, totaling RMB8,500,000, which was due for repayment in June 2022.

In respect of other loans in Hong Kong, the Group defaulted to repay two borrowings from an independent third party in Hong Kong, totaling HK$650,000 (approximately RMB569,000), which was due for repayment in May and June 2022.

In respect of the bank borrowing of RMB8,500,000 in the PRC, the default in repayment of the aforesaid other loans entitled the bank lender a right to demand immediate repayment of the bank borrowing from the Group.

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 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 of the Group. These include the followings:

(i) the Group intended to settle the other loans in the PRC by way of disposal of the pledged assets;

(ii) the Group has been in discussion with its lenders for the extension of repayment periods;

(iii) the Group has been in discussion with the major shareholders and directors of the Company for providing financing to the Group, and in contact with potential buyers to dispose of certain assets of the Group so as to raise additional fund; and

(iv) 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 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 the date of this report, 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 the date of this report. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

2 BASIS OF PREPARATION – *continued*

(b) Going concern basis – *continued*

Notwithstanding the above, significant uncertainties exist as to whether the management of the Group 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 disposal of pledged assets of the Group;

(ii) successfully extending the repayment periods of the Group's loans;

(iii) successfully and timely raising additional fund through financings from major shareholders and directors of the Company and the potential disposal of certain assets of the Group; and

(iv) successfully implementing the measures to improve sales, control costs and contain capital expenditures as well as to accelerate the collection of trade and other receivables 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 respectively. 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 the historical cost basis at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are with the scope of IFRS 2 Share-based Payment, leasing transactions that are accounted for in accordance with IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

2 BASIS OF PREPARATION – *continued*

(c) Historical cost convention – *continued*

For investment properties which are transacted at fair value and a valuation technique that unobservable inputs are to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3 APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current financial period

In the current financial period, the Group has applied the following amendments to IFRSs issued by IASB for the first time, which are mandatorily effective for annual periods beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendment to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRSs	Annual Improvements to IFRSs 2018-2020

The application of Amendments to References to the Conceptual Framework in IFRS and amendments to IFRSs in the current financial period has no material impact on the Group's financial position and performance for the current financial period and prior year and/or on the disclosures set out in these consolidated financial statements.

3 APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") – *continued*

New and amendments to IFRSs issued but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[3]
Amendments to IAS 1	Non-current Liabilities with Covenants[3]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Polices[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or after 1 January 2024.

The directors of the Group anticipate that the application of these new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

4 SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

4 SIGNIFICANT ACCOUNTING POLICIES – *continued*

Basis of consolidation – *continued*

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the financial period are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

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 directors that makes strategic decisions.

Revenue recognition

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

4 SIGNIFICANT ACCOUNTING POLICIES – *continued*

Revenue recognition – *continued*

Revenue from contracts with customers – continued

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9 Financial Instrument ("IFRS 9"). In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Foreign currency

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

4 SIGNIFICANT ACCOUNTING POLICIES – *continued*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Government grants relating to compensation of expenses are deducted from the related expenses, other government grants are presented under the “other income, gains or (losses)”.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property, plant and equipment are stated in the consolidated statement of financial position at costs less accumulated depreciation and impairment, if any.

If a property becomes an investment property because its use has changed as evidenced by end of owner-occupation, the cost less accumulated depreciation and impairment will be transferred to investment properties as the date of transfer.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual value and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

4 SIGNIFICANT ACCOUNTING POLICIES – *continued*

Property, plant and equipment – *continued*

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	10 years
– Furniture, fixtures and equipment	5 years

An item of Property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at costs less accumulated depreciation and impairment, if any. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives, using the straight-line method.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying value of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. A leased property which is recognised as a right-of-use asset is derecognised if the Group as intermediate lessor classifies the sublease as a finance lease. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

4 SIGNIFICANT ACCOUNTING POLICIES – *continued*

Impairment on property, plant and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment and right-of-use assets, are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying value of a group of cash-generating units, including the carrying value of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

4 SIGNIFICANT ACCOUNTING POLICIES – *continued*

Impairment on property, plant and equipment and right-of-use assets – *continued*

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Cash and cash equivalents

Cash and cash equivalents presented on the consolidated statement of financial position include:

(a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and

(b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management. Such overdrafts are presented as short-term borrowings in the consolidated statement of financial position.

Lease

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application of IFRS 16 or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

4 SIGNIFICANT ACCOUNTING POLICIES – *continued*

Lease – *continued*

The Group as lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Rental income which are derived from the Group's ordinary course of business are presented as revenue.

Refundable rental deposits

Refundable rental deposits received are accounted for under IFRS9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of office premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

4 SIGNIFICANT ACCOUNTING POLICIES – *continued*

Lease – *continued*

The Group as a lessee – continued

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

4 SIGNIFICANT ACCOUNTING POLICIES – *continued*

Lease – *continued*

The Group as a lessee – continued

Lease liabilities – *continued*

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.;
- the lease payments change due to changes in market rental rates following a market rent review/ expected payment under a guaranteed residual value, in which case the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

4 SIGNIFICANT ACCOUNTING POLICIES – *continued*

Employee benefits

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

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.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

4 SIGNIFICANT ACCOUNTING POLICIES – *continued*

Taxation – *continued*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

4 SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – ***continued***

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS *Business Combinations* applies.

4 SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial assets – *continued*

Classification and subsequent measurement of financial assets – continued

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other income, gains or (losses)" line item.

4 SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial assets – *continued*

Impairment of financial assets subject to impairment assessment under IFRS 9

The Group performs impairment assessment under expected credit losses ("ECL") model on financial assets (including trade and other receivables, cash and cash equivalents) which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balance and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

4 SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial assets – *continued*

Impairment of financial assets subject to impairment assessment under IFRS 9 – continued

(i) Significant increase in credit risk – *continued*

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 365 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

4 SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial assets – *continued*

Impairment of financial assets subject to impairment assessment under IFRS 9 – continued

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

4 SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial assets – *continued*

Impairment of financial assets subject to impairment assessment under IFRS 9 – continued

(v) Measurement and recognition of ECL – *continued*

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL for certain trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

4 SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables, convertible note, amount due to related parties and borrowings) are subsequently measured at amortised cost using the effective interest method.

Convertible bonds

The component parts of the convertible bonds are classified separately as financial liability and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component (including any embedded non-equity derivatives features) is estimated by measuring the fair value of similar liability that does not have an associated equity component.

A conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

4 SIGNIFICANT ACCOUNTING POLICIES – *continued*

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

4 SIGNIFICANT ACCOUNTING POLICIES – *continued*

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group; or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group (which mean that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

4 SIGNIFICANT ACCOUNTING POLICIES – *continued*

Related parties – *continued*

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5 KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the management of the Group are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year.

(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 consolidated financial statements. The assessment of the going concern assumption involves making a judgement by the directors of the Company, 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(b) to the consolidated financial statements.

5 KEY SOURCES OF ESTIMATION UNCERTAINTY – *continued*

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

The Group's management determines the estimated useful lives and residual values and consequently the related depreciation charges for its property, plant and equipment, investment properties and right-of-use assets. 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, investment properties and right-of-use assets

Property, plant and equipment, investment properties and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the cash generating unit to which the assets belongs, including allocation of corporate assets when a reasonable and consistent basis of allocation can be established, otherwise recoverable amount is determined at the smallest group of cash generating units, for which the relevant corporate assets have been allocated. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts. Furthermore, the cash flows projections, growth rate and discount rate are subject to greater uncertainties due to uncertainty on how the Covid-19 pandemic may progress and evolve.

As at 31 March 2023, the carrying value of property, plant and equipment, investment properties and right-of-use assets subject to impairment assessment were RMB5,417,000, RMB66,901,000 and RMB2,753,000 (31 December 2021: RMB37,425,000, RMB45,160,000 and RMB7,352,000) respectively, after taking into account the impairment losses of RMBNil, RMB10,858,000 and RMBNil (31 December 2021: RMB15,019,000, RMB933,000 and RMB2,971,000) in respect of property, plant and equipment, investment properties and right-of-use assets that have been recognised respectively. Details of the impairment of property, plant and equipment, investment properties and right-of-use assets are disclosed in Notes 17, 18 and 16 respectively.

5 KEY SOURCES OF ESTIMATION UNCERTAINTY – *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 to completion and costs necessary to make the sale. 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 demand and competitor actions in response to industry cycles. Management reassesses the estimates at each reporting date.

(e) Allowance for expected credit losses of trade and other receivables

The loss allowances for trade and other receivables 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 6.

(f) Fair value measurement of financial assets at fair value through profit or loss

As at 31 March 2023, the financial assets at fair value through profit or loss amounting to RMB1,557,000 (2021: Nil) are measured at fair value with fair value being determined based on significant unobservable inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could result in material adjustments to the fair value of the assets.

6 FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	31 March 2023 RMB'000	31 December 2021 RMB'000
Financial assets		
Amortised cost		
Trade and other receivables	49,161	71,650
Cash and cash equivalents	6,939	3,259
	56,100	74,909
Financial assets at fair value through profit or loss	1,557	–
Financial liabilities		
Amortised cost		
Trade and other payables	28,959	51,915
Borrowings	37,736	62,647
Amounts due to related parties	7,795	6,235
Convertible bonds payable	6,972	–
	81,462	120,797

6 FINANCIAL INSTRUMENTS – *continued*

(b) Financial risk factors

The Group's major financial instruments include financial assets at fair value through profit or loss, trade and other receivables, cash and cash equivalents, trade and other payables, borrowings, amount due to related parties and convertible bonds payable. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (foreign exchange risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

(a) Market risk

(i) Foreign exchange risk

The directors do not consider the exposure to foreign exchange risk is 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 fifteen months ended 31 March 2023.

The Group's exposure to foreign exchange risks arises from the Company's cash and cash equivalents, other receivables, financial assets at fair value through profit or loss, other payables, convertible bonds payable, borrowings and amount due to related parties in Hong Kong which are denominated in HK$ (Notes 22, 21,19, 26, 30, 25 and 29 respectively).

At 31 March 2023, if RMB had strengthened/weakened by 10% against the HK$ (pegged with US$), with all other variables held constant, the Group's net loss for the year would have been RMB2,171,000 lower/higher (31 December 2021: RMB4,831,000 lower/higher).

6 FINANCIAL INSTRUMENTS – *continued*

(b) Financial risk factors – *continued*

(a) Market risk – continued

(ii) Cash flow and fair value interest rate risk

Except for cash and cash equivalents (Note 22), 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.

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 March 2023, if interest rate on borrowings had been higher/lower by 100 basis point, with other variables held constant, the Group's net loss for the years would have been increased/decreased by approximately RMB377,360 (31 December 2021: RMB348,000).

(b) Credit risk

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade and other receivables, and cash and cash equivalents. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

(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.

6 FINANCIAL INSTRUMENTS – *continued*

(b) Financial risk factors – *continued*

(b) Credit risk – continued

(ii) Impairment of financial assets

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

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 measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables on initial recognition.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the length of past due 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 March 2023, trade receivables of approximately RMB104,558,000 (31 December 2021: RMB99,219,000) has been fully provided for loss allowance for these individually assessed receivables.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% (31 December 2021: 100%) of the total receivables as at 31 March 2023. The Group has concentration of credit risk as 24% (31 December 2021: 18%) and 64% (31 December 2021: 55%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively. In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals.

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.

6 FINANCIAL INSTRUMENTS – *continued*

(b) Financial risk factors – *continued*

(b) Credit risk – continued

(ii) Impairment of financial assets – *continued*

Trade receivables – *continued*

The Group considered various indicators, including, but not limited to, 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.

On that basis, the loss allowance as at 31 March 2023 and 31 December 2021 were determined as follows for trade receivables:

31 March 2023	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	n/a	3.45%	9.18%	52.90%	29.26%
Gross carrying amount	–	17,121	17,511	33,574	68,206
Loss allowance	–	590	1,607	17,761	19,958
Individually impaired receivables	–	–	–	104,558	104,558
Total loss allowance	–	590	1,607	122,319	124,516

6 FINANCIAL INSTRUMENTS – *continued*

(b) Financial risk factors – *continued*

(b) Credit risk – continued

(ii) Impairment of financial assets – *continued*

Trade receivables – *continued*

31 December 2021	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	1.08%	3.25%	6.54%	52.60%	6.98%
Gross carrying amount	34,991	20,741	14,730	6,368	76,830
Loss allowance	377	673	964	3,349	**5,363**
Individually impaired receivables	–	–	–	99,219	99,219
Total loss allowance	377	673	964	102,568	104,582

The expected credit loss allowances for trade receivables as at 31 March 2023 reconcile to the opening expected credit loss allowances as follows:

	RMB'000
At 1 January 2021	**81,953**
Provision for allowance for expected credit losses, net	**22,629**
At 31 December 2021	**104,582**
Provision for allowance for expected credit losses, net	**19,934**
At 31 March 2023	**124,516**

6 FINANCIAL INSTRUMENTS – *continued*

(b) Financial risk factors – *continued*

(b) Credit risk – continued

(ii) Impairment of financial assets – *continued*

Trade receivables – *continued*

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 result. Subsequent recoveries of amounts previously written off are credited against the same line item.

Other receivables 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.

The expected credit loss allowances for other receivables as at 31 March 2023 reconcile to the opening expected credit loss allowances as follows:

	RMB'000
At 1 January 2021	17,971
Write-off	(6,466)
At 31 December 2021	11,505
Write-off	(11,505)
At 31 March 2023	–

6 FINANCIAL INSTRUMENTS – *continued*

(b) Financial risk factors – *continued*

(c) Liquidity risk – continued

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.

	Weighted average effective interest rate %	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
At 31 March 2023							
Borrowings	7.63	40,615	–	–	–	40,615	37,736
Trade and other payables	n/a	28,959	–	–	–	28,959	28,959
Convertible bonds payable	9.06	683	7,503	–	–	8,186	6,972
Amount due to related parties	n/a	7,795	–	–	–	7,795	7,795
		78,052	7,503	–	–	85,555	81,462
At 31 December 2021							
Borrowings	6.75	66,876	–	–	–	66,876	62,647
Trade and other payables	n/a	51,915	–	–	–	51,915	51,915
Amount due to related parties	n/a	6,235	–	–	–	6,235	6,235
		125,026	–	–	–	125,026	120,797

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.

6 FINANCIAL INSTRUMENTS – *continued*

Capital management – *continued*

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings and convertible bonds payable divided by total equity.

The gearing ratios as at 31 March 2023 and 31 December 2021 were as follows:

	31 March 2023 RMB'000	31 December 2021 RMB'000
Borrowings (Note 25)	37,736	62,647
Convertible bonds payable (Note 30)	6,972	–
	44,708	–
Total equity	26,070	50,120
Gearing ratio %	171%	125%

Gearing ratio increased when compared with that of the year ended 31 December 2021 resulted primarily from the decrease in equity for the fifteen months ended 31 March 2023.

Fair value measurement

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. For instruments with significant unobservable inputs under Level 3, the Group engages third party qualified valuer to perform the valuation.

6 FINANCIAL INSTRUMENTS – *continued*

Fair value measurement – *continued*

The following gives information about how the fair values of these financial assets are determined.

As at 31 March 2023

	Level 3 RMB'000
Financial assets at fair value through profit or loss	
Issuer's early redemption rights on convertible bonds (Note 19)	1,557

As at 31 December 2021, the Group had no financial instruments that are subsequently measured in the consolidated balance sheet at fair value.

During the fifteen months ended 31 March 2023, there were no transfer between Level 1 and Level 2, or transfer into or out of Level 3.

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 financial assets at fair value through profit or loss:

Fair value at 31 March 2023 (RMB'000)	Valuation technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
1,557	Crank – Nicolson finite – difference method	(i) Discount rate	9.06%	Higher the discount rate, lower of the fair value
		(ii) Volatility	73.85%	Higher the volatility, higher of the fair value

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

7 SEGMENT INFORMATION

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

– Manufacturing and sales of plywood;

– Leasing activities

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

The directors assess the performance of the business segments based on loss before tax without allocation of certain finance costs and administrative expenses, which is consistent with that in the consolidated financial statements.

Segment assets consist of right-of-use assets, property, plant and equipment, investment properties, inventories, trade and other receivables and cash and cash equivalents. Unallocated assets mainly comprise cash and cash equivalents, property, plant and equipment, other receivables and financial assets at fair value through profit or loss, held by non-PRC incorporated companies.

Segment liabilities consist of borrowings, deferred income, trade and other payables and other current tax liabilities. Unallocated liabilities mainly comprise amount due to related parties, other payables and convertible bonds payable held by non-PRC incorporated companies.

7 SEGMENT INFORMATION – *continued*

The segment information for the fifteen months ended 31 March 2023 is as follows:

	Plywood RMB'000	Lease activities RMB'000	Total RMB'000
Segment result			
Revenue	54,239	5,248	59,487
Segment results	(47,322)	(1,258)	(48,580)
Unallocated costs			(1,113)
Finance costs			(2,077)
Loss before tax			(51,770)
Income tax expense			–
Loss for the period			(51,770)

	Plywood RMB'000	Lease activities RMB'000	Unallocated RMB'000	Total RMB'000
Other segment items				
Profit or loss items:				
Allowance for expected credit losses, net	19,934	–	–	19,934
Depreciation on right-of-use assets	85	–	–	85
Depreciation on property, plant and equipment	427	37	37	501
Gain on disposal of property, plant and equipment	(133)	–	–	(133)
Depreciation on investment properties	–	3,375	–	3,375
Impairment loss on investment properties	–	10,858	–	10,858
Gain on debt-restructuring	–	–	(14,755)	(14,755)
Impairment loss on inventories, net of reversal	140	–	–	140

7 SEGMENT INFORMATION – *continued*

The segment assets and liabilities at 31 March 2023 are as follows:

	Plywood RMB'000	Lease activities RMB'000	Unallocated RMB'000	Group RMB'000
Total assets	71,722	67,142	9,214	148,078
Total liabilities	64,691	24,668	32,649	122,008

The segment information for the year ended 31 December 2021 is as follows:

	Plywood RMB'000	Lease activities RMB'000	Total RMB'000
Segment result			
Revenue	170,548	2,200	172,748
Segment results	(106,921)	(3,969)	(110,890)
Unallocated costs			(7,471)
Finance costs			(749)
Loss before tax			(119,110)
Income tax expense			(41)
Loss for the year			(119,151)

7 SEGMENT INFORMATION – *continued*

	Plywood RMB'000	Lease activities RMB'000	Unallocated RMB'000	Total RMB'000
Other segment items				
Profit or loss items:				
Allowance for expected credit losses, net	22,629	–	–	22,629
Depreciation on right-of-use assets	256	–	–	256
Impairment loss on right-of-use assets	2,971	–	–	2,971
Depreciation on property, plant and equipment	2,339	26	41	2,406
Impairment loss on property, plant and equipment	15,019	–	–	15,019
Gain on disposal of property, plant and equipment	(163)	–	–	(163)
Depreciation on investment properties	–	1,541	–	1,541
Impairment loss on investment properties	–	933	–	933
Other items:				
Additions to non-current assets	110	–	–	110

The segment assets and liabilities at 31 December 2021 are as follows:

	Plywood RMB'000	Lease activities RMB'000	Unallocated RMB'000	Group RMB'000
Total assets	135,258	45,389	38	180,685
Total liabilities	60,312	22,358	47,895	130,565

7 SEGMENT INFORMATION – *continued*

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:

	Fifteen months ended 31 March 2023 RMB'000	Year ended 31 December 2021 RMB'000
Customer A#	7,612	–*
Customer B#	7,419	–*
Customer C#	5,999	–*

Revenue generated from trading of plywood.

* The corresponding revenue did not contribute 10% of the total revenue of the Group.

8 REVENUE

	Fifteen months ended 31 March 2023 RMB'000	Year ended 31 December 2021 RMB'000
Revenue from contract with customers		
Revenue from sales of plywood	54,239	170,548
Revenue from leasing		
Gross rental income	5,248	2,200
	59,487	172,748

All of the Group's revenue from contracts with customers are derived from the transfer of goods and are recognised 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.

9 OTHER INCOME, GAINS OR (LOSSES)

	Fifteen months ended 31 March 2023 RMB'000	Year ended 31 December 2021 RMB'000
Interest income	24	5
Net exchange gains	–	2
Sales of plywood core	–	1,647
Amortisation of deferred income related to government grants	32	25
Write-off of other receivables	–	(105)
Gain on disposal of property, plant and equipment	133	163
Other losses	(702)	(476)
Gain on debt-restructuring	14,755	–
Impairment loss on inventories, net of reversal	(140)	–
Impairment loss on investment properties	(10,858)	(933)
Impairment loss on property, plant and equipment	–	(15,019)
Impairment loss on right-of-use assets	–	(2,971)
	3,244	(17,662)

10 FINANCE COSTS

	Fifteen months ended 31 March 2023 RMB'000	Year ended 31 December 2021 RMB'000
Interest expense on bank borrowings	989	2,764
Interest expense on bonds payables	1,126	749
Interest expense on other loan	4,925	232
Effective interest charged on convertible bonds payable	12	–
	7,052	3,745

11 DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments and retirement benefits

For the fifteen months ended 31 March 2023

	Fees RMB'000	Salaries and allowances RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors:				
Mr. Wong Ben	382	–	–	382
Mr. Chai Kaw Sing	382	–	–	382
Mr. Sun Yongtao (Note iv)	62	–	–	62
Mr. Wong Wai Keung Frederick (Note v)	42	–	–	42
Mr. Zhang Ayang (Note i)	421	–	–	421
Non-executive director:				
Mr. Sun Yongtao (Note iv)	321	–	–	321
Independent Non-executive directors:				
Mr. Tso Siu Lun (Note viii)	104	–	–	104
Ms Lo Yuk Yee	191	–	–	191
Mr. Lo Kam Cheung Patrick (Note iii)	27	–	–	27
Mr. Kwok Yiu Tong (Note vi)	126	–	–	126
Mr. Chan Shiu Yuen (Note vii)	101	–	–	101
	2,159	–	–	2,159

11 DIRECTORS' AND EMPLOYEES' EMOLUMENTS – *continued*

(a) Directors' emoluments and retirement benefits – *continued*

For the year ended 31 December 2021

	Fees RMB'000	Salaries and allowances RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors:				
Mr. Wong Ben	292	–	–	292
Mr. Chai Kaw Sing	292	–	–	292
Mr. Sun Yongtao (Note iv)	292	–	–	292
Mr. Wong Wai Keung Frederick (Note v)	585	–	–	585
Mr. Zhang Ayang (Note i)	321	–	–	321
Independent Non-executive directors:				
Mr. Tso Siu Lun (Note viii)	146	–	–	146
Mr. Kwok Wai Ching (Note ii)	52	–	–	52
Ms Lo Yuk Yee	146	–	–	146
Mr. Lo Kam Cheung Patrick (Note iii)	95	–	–	95
	2,221	–	–	2,221

The executive, non-executive and independent non-executive directors' emoluments shown above were for their services as directors of the Company.

11 DIRECTORS' AND EMPLOYEES' EMOLUMENTS – *continued*

(a) Directors' emoluments and retirement benefits – *continued*

Notes:

(i) The duties and powers of Mr. Zhang Ayang as an executive director has been suspended since 15 December 2021.

(ii) Mr. Kwok Wai Ching resigned as independent non-executive director of the Company on 19 May 2021.

(iii) Mr. Lo Kam Cheung Patrick was appointed as independent non-executive director on 19 May 2021 and resigned on 4 March 2022.

(iv) Mr. Sun Yongtao was redesignated as non-executive director on 16 March 2022.

(v) Mr. Wong Wai Keung Frederick resigned as executive director of the Company on 24 January 2022.

(vi) Mr. Kwok Yiu Tong was appointed as independent non-executive director on 22 March 2022.

(vii) Mr. Chan Shiu Yuen was appointed as independent non-executive director on 5 August 2022.

(viii) Mr. Tso Siu Lun resigned as independent non-executive director of the Company on 5 September 2022.

(b) Directors' termination benefits

For the fifteen months ended 31 March 2023, no termination benefits were paid to the directors (year ended 31 December 2021: Nil).

(c) Consideration provided to third parties for making available directors' services

For the fifteen months ended 31 March 2023, no consideration was paid for making available the services of the directors of the Company (year ended 31 December 2021: Nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

For the fifteen months ended 31 March 2023, there was no loans, quasi loans or other dealings entered into by the Company or subsidiaries undertaking of the Company, where applicable, in favour of directors (year ended 31 December 2021: Nil).

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

No significant transactions, arrangements or contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period (year ended 31 December 2021: Nil).

11 DIRECTORS' AND EMPLOYEES' EMOLUMENTS – *continued*

Five highest paid individuals

The five individuals whose emoluments are the highest in the Group included four (year ended December 2021: five) directors during the fifteen months ended 31 March 2023, whose emoluments are reflected in the analysis shown in above. The emoluments paid and payable to the remaining individual during the period/year are as follows:

	Fifteen months ended 31 March 2023 RMB'000	Year ended 31 December 2021 RMB'000
Salaries and bonus	348	–
Pension, housing fund and other social benefits	5	–
	353	–

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

	Fifteen months ended 31 March 2023	Year ended 31 December 2021
Emolument band (in RMB)		
Nil to RMB1,000,000	1	–

12 INCOME TAX EXPENSE

	Fifteen months ended 31 March 2023 RMB'000	Year ended 31 December 2021 RMB'000
Income tax expense		
– Current tax	–	–
– Under-provision of PRC Enterprise Income Tax	–	41
– Deferred income tax	–	–

(i) Hong Kong profits tax

No Hong Kong profits tax has been provided, as the Group has no taxable profit derived in Hong Kong. The applicable Hong Kong profits tax rate is 16.5% for the fifteen months ended 31 March 2023 (year ended 31 December 2021: 16.5%).

(ii) PRC Enterprise Income Tax ("EIT")

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the fifteen months ended 31 March 2023 (year ended 31 December 2021: 25%).

(iii) PRC withholding income tax

According to the new EIT Law, a 10% withholding tax will be levied on dividends distributed to the immediate holding companies established outside of the PRC. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding companies. No withholding tax has been provided as the Group does not expect the PRC subsidiaries to distribute the retained earnings as at 31 March 2023 in the foreseeable future.

12 INCOME TAX EXPENSE – *continued*

The income tax expense for the period/year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Fifteen months ended 31 March 2023 RMB'000	Year ended 31 December 2021 RMB'000
Loss before tax	(51,770)	(119,110)
Tax calculated at PRC EIT 25% (2021: 25%)	(12,942)	(29,778)
Under-provision of tax in previous years	–	41
Tax effects of:		
– Expenses not deductible for tax purpose	7,859	9,190
– Income not taxable for tax purpose	(73)	–
– Unrecognised temporary differences	539	1,210
– Different tax rates of subsidiaries operating in other jurisdiction	122	724
– Tax losses not recognised (Notes (i) & (ii))	4,495	18,654
Income tax expense	–	41

Notes:

(i) As at 31 March 2023, the Group's entities in the PRC had estimated tax losses of RMB241,796,000 (31 December 2021: RMB223,899,000). The expiration dates of those tax losses for which no deferred tax assets have been recognised are as follows:

	31 March 2023 RMB'000	31 December 2021 RMB'000
Year of expiration		
2024	30,711	30,711
2025	118,573	118,573
2026	74,534	74,615
2027	16,312	–
2028	1,666	–
Total	241,796	223,899

(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. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profits streams.

13 LOSS FOR THE PERIOD/YEAR

Loss for the period/year has been arrived at after charging (crediting) the followings:

	Fifteen months ended 31 March 2023 RMB'000	Year ended 31 December 2021 RMB'000
Staff costs, including directors' emoluments	5,689	8,460
Retirement benefits scheme contributions, including contributions for directors	111	204
	5,800	8,664
External auditor's remuneration		
– audit services	1,250	880
– other services	830	–
Cost of inventories recognised as expense	56,950	217,312
Depreciation on property, plant and equipment	501	2,406
Impairment loss on property, plant and equipment	–	15,019
Depreciation on investment properties	3,375	1,541
Impairment loss on investment properties	10,858	933
Depreciation on right-of-use assets	85	256
Impairment loss on right-of-use assets	–	2,971
Impairment loss on inventories, net of reversal	140	–
Write-off of other receivables	–	105

	Fifteen months ended 31 March 2023 RMB'000	Year ended 31 December 2021 RMB'000
Gross rental income from investment properties	(5,248)	(2,200)
Less: Direct operating expenses from investment properties that generated rental income during the period/year	345	14
	(4,903)	(2,186)

14 DIVIDEND

The directors do not recommend the payment of a dividend for the fifteen months ended 31 March 2023 and year ended 31 December 2021.

15 LOSS PER SHARE

(a) Basic

Basic loss per share for the fifteen months ended 31 March 2023 and year ended 31 December 2021 are calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares for the respective period/year.

	Fifteen months ended 31 March 2023 RMB'000	Year ended 31 December 2021 RMB'000
Loss attributable to owners of the Company	(50,799)	(119,151)
		(restated)
Weighted average number of ordinary shares (thousands)	1,465,640	1,299,200
Basic loss per share (RMB cents per share)	(3.47)	(9.17)

(b) Diluted

For the fifteen months ended 31 March 2023, the computation of diluted loss per share has not taken into account the conversion of the Company's outstanding convertible bonds since their exercise would result in a decrease in loss per share, and is therefore regarded as anti-dilutive.

For the year ended 31 December 2021, the diluted loss per share are equal to basic loss per share, as there were no potential ordinary shares in issue for the year.

The weighted average number of ordinary shares adopted in the calculation of the basic and diluted loss per share for year ended 31 December 2021 has been adjusted retrospectively to reflect the impact of the open offer on the basis of three new shares for every five existing shares completed on 25 July 2022.

16 RIGHT-OF-USE ASSETS

	Land use rights RMB'000
Cost	
At 1 January 2021, 31 December 2021 and 1 January 2022	12,695
Transfer to investment properties	(7,889)
At 31 March 2023	**4,806**
Depreciation	
At 1 January 2021	2,116
Charge for the year	256
At 31 December 2021	2,372
Charge for the period	85
Transfer to investment properties	(1,551)
At 31 March 2023	**906**
Impairment loss	
At 1 January 2021	–
Charge for the year	2,971
At 31 December 2021	2,971
Transfer to investment properties	(1,824)
At 31 March 2023	**1,147**
Carrying value	
At 31 March 2023	**2,753**
At 31 December 2021	7,352

The land use rights are held with lease term of 50 years and the land is situated in Heze City, Shandong Province, the PRC.

As at 31 March 2023, land use rights of the Group with a carrying value of RMB2,753,000 (31 December 2021: RMB7,352,000) were pledged as security for short-term bank borrowings of the Group (Note 25).

For the fifteen months ended 31 March 2023, the expense relating to short-term lease amounted to RMB335,000 (year ended 31 December 2021: RMB173,000).

17 PROPERTY, PLANT AND EQUIPMENT

	Plant RMB'000	Machinery RMB'000	Furniture, fixtures and equipment RMB'000	Vehicles RMB'000	Total RMB'000
Cost					
At 1 January 2021	66,087	21,144	1,240	679	89,150
Additions	–	–	110	–	110
Disposals	–	(918)	–	(522)	(1,440)
Write-off	–	–	(35)	–	(35)
At 31 December 2021	66,087	20,226	1,315	157	87,785
Disposals	–	(1,289)	–	(119)	(1,408)
Transfer to investment properties	(57,298)	–	–	–	(57,298)
At 31 March 2023	8,789	18,937	1,315	38	29,079
Depreciation					
At 1 January 2021	13,267	9,073	1,067	550	23,957
Charge for the year	2,130	211	65	–	2,406
Eliminated on disposals	–	(548)	–	(400)	(948)
Write-off	–	–	(35)	–	(35)
At 31 December 2021	15,397	8,736	1,097	150	25,380
Charge for the period	254	180	67	–	501
Eliminated on disposals	–	(718)	–	(113)	(831)
Transfer to investment properties	(13,124)	–	–	–	(13,124)
At 31 March 2023	2,527	8,198	1,164	37	11,926

17 PROPERTY, PLANT AND EQUIPMENT – *continued*

	Plant RMB'000	Machinery RMB'000	Furniture, fixtures and equipment RMB'000	Vehicles RMB'000	Total RMB'000
Impairment loss					
At 1 January 2021	–	10,216	58	106	10,380
Charge for the year	14,590	427	2	–	15,019
Eliminated on disposals	–	(319)	–	(100)	(419)
At 31 December 2021	14,590	10,324	60	6	24,980
Eliminated on disposals	–	(525)	–	(5)	(530)
Transfer to investment properties	(12,714)	–	–	–	(12,714)
At 31 March 2023	1,876	9,799	60	1	11,736
Carrying value					
At 31 March 2023	4,386	940	91	–	5,417
At 31 December 2021	36,100	1,166	158	1	37,425

Notes:

(a) As at 31 March 2023, plants of the Group with a carrying value of RMB4,386,000 (31 December 2021: RMB36,100,000), were pledged as security for short-term bank borrowings of the Group as disclosed in Note 25.

(b) As at 31 March 2023, plants of the Group with a carrying value of RMB4,365,000 (31 December 2021: RMB11,184,000) were without real estate titles and they are in the process of applying for the real estate certificates.

18 INVESTMENT PROPERTIES

	Building RMB'000	Land use rights RMB'000	Total RMB'000
Cost			
At 1 January 2021	69,706	17,746	87,452
Additions	1,756	–	1,756
At 31 December 2021	71,462	17,746	89,208
Transfer from property, plant and equipment	57,298	–	57,298
Transfer from right-of-use assets	–	7,889	7,889
At 31 March 2023	**128,760**	**25,635**	**154,395**
Depreciation			
At 1 January 2021	10,870	2,098	12,968
Charge for the year	1,185	356	1,541
At 31 December 2021	12,055	2,454	14,509
Charge for the period	2,789	586	3,375
Transfer from property, plant and equipment	13,124	–	13,124
Transfer from right-of-use assets	–	1,551	1,551
At 31 March 2023	**27,968**	**4,591**	**32,559**
Impairment loss			
At 1 January 2021	28,606	–	28,606
Charge for the year	933	–	933
At 31 December 2021	29,539	–	29,539
Charge for the period	10,858	–	10,858
Transfer from property, plant and equipment	12,714	–	12,714
Transfer from right-of-use assets	–	1,824	1,824
At 31 March 2023	**53,111**	**1,824**	**54,935**
Carrying value			
At 31 March 2023	**47,681**	**19,220**	**66,901**
At 31 December 2021	29,868	15,292	45,160

The useful lives for building were 30 years. The land use rights are held with lease term of 50 years.

18 INVESTMENT PROPERTIES – *continued*

As the Group has slowed down the business scale of the plywood segment, the Group decided to rent out most of the plant to independent third parties for earning leasing income. Accordingly, the carrying value of the related land and buildings were transferred from right-of-use assets (Note 16) and property, plant and equipment (Note 17) to investment properties during the fifteen months ended 31 March 2023.

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

The Group's investment properties were stated at historical cost less 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 March 2023 were determined to be approximately RMB101,400,000 (31 December 2021: RMB59,600,000) by the directors of the Company with reference to valuations performed by Peak Vision Appraisals Limited, an independent valuer on the investment properties as at 31 March 2023 and 31 December 2021. The valuer has appropriate qualifications and experience in the valuation of properties in the relevant locations. An impairment charge of RMB10,858,000 (year ended 31 December 2021: RMB933,000) was recognised in "Other income, gains or (losses)" in the consolidated statement of comprehensive income for the fifteen months ended 31 March 2023.

The valuations were based on market approach. The fair value estimation of the investment property is categorised in level 3 hierarchy. As at 31 March 2023, 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 Mar 2023 (RMB'000)	Valuation technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Investment properties	101,400	Investment method	(i) Reversionary yield;	5.5%-6%	Higher of the yield, lower of the fair value;
			(ii) Average market rent (RMB/sq.m.)	7.4-8.7	The higher the market rent, the higher the fair value

18 INVESTMENT PROPERTIES – *continued*

Description	Fair value at 31 Dec 2021 (RMB'000)	Valuation technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Investment properties	59,600	Investment method	(i) Reversionary yield;	5.5%-6%	Higher or the yield, lower of the fair value;
			(ii) Average market rent (RMB/sq.m.)	6.9-8.5	The higher the market rent, the higher the fair value

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 March 2023 RMB'000	31 December 2021 RMB'000
Issuer's early redemption right on convertible bonds	1,557	–

Details of fair value measurement are disclosed in Note 6 to the consolidated financial statements.

Details of movement for financial assets at fair value through profit or loss are as follow:

	Early redemption right RMB'000
At 1 January 2022	–
Issue of convertible bonds	1,547
Exchange gain	10
At 31 March 2023	1,557

The fair value of the early redemption right at 31 March 2023 was estimated to be the same as inception on 24 March 2023.

20 INVENTORIES

	31 March 2023 RMB'000	31 December 2021 RMB'000
Raw materials	–	789
Work-in-progress	1,708	1,814
Finished goods	1,038	3,187
	2,746	5,790
Less: accumulated impairment loss	(814)	(674)
	1,932	5,116

Inventories of RMB1,932,000 was stated at net realisable value.

21 TRADE AND OTHER RECEIVABLES

	31 March 2023 RMB'000	31 December 2021 RMB'000
Trade receivables		
– contract with customers	172,726	176,232
– under IFRS 16 Leases	38	–
	172,764	176,232
Less: accumulated allowance for expected credit losses	(124,516)	(104,582)
	48,248	71,650
Prepayments for raw materials	13,418	10,723
Other receivables	913	11,505
Less: accumulated allowance for expected credit losses	–	(11,505)
	62,579	82,373

21 TRADE AND OTHER RECEIVABLES – *continued*

The following is an ageing analysis of trade receivables (net of allowance for expected credit losses) presented based on the invoice dates:

	31 March 2023 RMB'000	31 December 2021 RMB'000
Up to 3 months	–	34,798
4 to 6 months	6,153	20,068
7 to 12 months	19,587	13,766
Over 1 year	22,508	3,018
	48,248	71,650

The following table shows the amounts of receivable which are past due but not impaired as the balances related to debtors with sound repayment history and there has not been a significant change in credit quality and the amounts are still considered recoverable.

An aging analysis of trade receivables past due but not impaired is as follows:

	31 March 2023 RMB'000	31 December 2021 RMB'000
Up to 3 months	6,153	20,068
4 to 6 months	10,378	13,766
7 to 12 months	15,904	–
Over 1 year	15,813	3,018
	48,248	36,852

Details of impairment assessment of trade and other receivables for the fifteen months ended 31 March 2023 and year ended 31 December 2021 are set out in Note 6.

22 CASH AND CASH EQUIVALENTS

	31 March 2023 RMB'000	31 December 2021 RMB'000
Cash on hand	37	56
Cash at banks	6,902	3,203
	6,939	3,259

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

	31 March 2023 RMB'000	31 December 2021 RMB'000
RMB	237	3,232
HK$	6,702	27
	6,939	3,259

As at 31 March 2023, bank balances carry interest at market rates which range from 0.2% to 0.4% (31 December 2021: 0.001% to 0.3%).

23 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares '000	Share capital RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2021, 31 December 2021 and 1 January 2022	974,400	8,592	212,502	221,094
Issue of shares under open offer (Note i)	584,640	5,028	15,083	20,111
Issue of shares under creditors' scheme arrangement (Note ii)	59,215	545	5,888	6,433
Transaction cost attributable to issue of shares (Note iii)	n/a	–	(232)	(232)
At 31 March 2023	1,618,255	14,165	233,241	247,406

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 March 2023 and 31 December 2021.

23 SHARE CAPITAL AND SHARE PREMIUM – *continued*

Notes:

(i) On 25 July 2022, the Company completed an open offer on the basis of three new shares of the Company for every five existing shares of the Company held on 15 July 2022 at a subscription price of HK$0.04 per share and issued 584,640,000 new shares.

(ii) On 11 November 2022, the Company issued 59,215,000 ordinary shares under general mandate. The shares were issued to settle part of the consideration of the bonds payable during the fifteen months ended 31 March 2023.

(iii) The transaction costs in relation to issue of shares of HK$270,000 (equivalent to approximately RMB232,000) were debited to equity under share premium account during the fifteen months ended 31 March 2023.

24 OTHER RESERVES AND CONVERTIBLE BONDS EQUITY RESERVES

The following is the analysis of the other reserves:

	Capital reserves RMB'000	Statutory reserves RMB'000	Total RMB'000
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 March 2023	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 fifteen months ended 31 March 2023 and year ended 31 December 2021, PRC subsidiaries did not make appropriations to statutory reserves due to the operating losses during the period/year.

(c) Convertible bonds equity reserves

The convertible bonds equity reserves represent the equity component (conversion rights) of convertible bonds issued by the Company. Items included in convertible bonds equity reserve will not be reclassified subsequently to profit or loss.

25 BORROWINGS

	31 March 2023 RMB'000	31 December 2021 RMB'000
Current		
Bonds payable (Note a)	–	27,860
Short-term bank borrowings – secured (Note b)	8,500	25,287
Other loans (Note c)	29,236	9,500
Total borrowings	37,736	62,647

Notes:

(a) **Bonds payable**

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 March 2023 and 31 December 2021, the Group's bonds were repayable as follows:

	31 March 2023 RMB'000	31 December 2021 RMB'000
Within 1 year	–	27,860

During the year ended 31 December 2021, 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 payables amounted to RMB29,037,000 as at 31 December 2021 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 2022 and were reclassified as current liabilities as at 31 December 2021. 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. During the year ended 31 December 2022, the District Court of the Hong Kong Special Administrative Region ordered that judgment be entered in favour of the bond holder creditors against the Company for the principal amount and interest accrued.

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 2021, the Company announced the Proposed Restructuring, including the bonds borrowings and the interests accrued and other liabilities in Hong Kong, by way of implementing the Creditors Scheme. The Creditors Scheme is a scheme 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.

25 BORROWINGS – *continued*

Notes: – *continued*

(a) Bonds payable – *continued*

On 9 December 2021, the Creditors Scheme was approved by the requisite majorities of the Scheme Creditors.

On 11 January 2022, the Creditors Scheme was sanctioned without modification by the High Court of Hong Kong Special Administrative Region.

The Amended Open Offer has been completed in July 2022 for consideration of RMB20,111,000 and the scheme shares issued in November 2022. The bonds payable, accrued bond interests and legal charge payables have been settled by the cash consideration of RMB12,920,000 and 59,215,000 scheme shares with offer price of HK$0.118 per share.

The Group recorded a gain on debt-restructuring of RMB14,755,000 which is included in the other income, gains or (losses) in Note 9 to the consolidated financial statements.

(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 right-of-use assets with carrying value of RMB2,753,000 (31 December 2021: RMB7,352,000), plants of the Group with carrying value of RMB4,386,000 (31 December 2021: RMB36,100,000), and investment properties with carrying value of RMB62,359,000 (31 December 2021: RMB44,980,000) as at 31 March 2023. 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 29).

During the year ended 31 December 2021, the bank filed a petition to the People's Court in Chengwu County of Shangdong Province for the repayment of the loans of RMB16,303,000 and interest accrued ("Default Bank Loan") and the court ordered that the repayment of the principal amount and the interest accrued within the time specified.

During the fifteen months ended 31 March 2023, the Default Bank Loan have been sold to an asset management company in the PRC, the principal amounts of the loans being transferred is RMB16,154,000. The nature of the loan has been reclassified as other loan in April 2022.

In December 2022, the loan has been transferred to another asset management company in the PRC of which the transferee has filed a petition to the People's Court in April 2023. The court ordered that the Group must be repaid the loans in time specified.

These conditions had triggered cross default of short-term bank borrowing of RMB8,500,000 as at 31 March 2023, which was originally due for repayment in September 2023 and will be subject to immediate repayment if requested by the respective bank.

(c) Other loans

Except from the Default Bank Loan which have been sold to asset management company, there are nine new other loans raised from independent third party in Hong Kong. These loans amounted to RMB3,582,000 of which matured in April, May, June, August 2022 and April 2023 and interest rate ranging from 14% to 24% per annum.

In addition, there are two other loans raised from independent third party in PRC. These loans amounted to RMB9,500,000 with interest rate ranging from 3.65% to 8.4% per annum.

(d) For the fifteen months ended 31 March 2023, the interest rate on borrowings from banks was 8.4% (year ended 31 December 2021: 6.75%) per annum.

(e) The Group's bonds payable, short-term bank borrowings and other loans are denominated in HKD and RMB, and their carrying amounts approximated their fair value as at 31 March 2023 and 31 December 2021.

26 TRADE AND OTHER PAYABLES

	31 March 2023 RMB'000	31 December 2021 RMB'000
Trade payables	6	335
Other taxes payable	29,890	24,850
Accrued expenses	18,058	16,810
Interest payable	5,898	5,575
Advance from customers	–	2,068
Others	4,997	4,345
	58,849	53,983

The following is an ageing analysis of trade payables presented based on the invoice dates:

	31 March 2023 RMB'000	31 December 2021 RMB'000
Within 3 months	6	335

The carrying amounts of the Group's trade and other payables approximated their fair values as at 31 March 2023 and 31 December 2021. These amounts were mainly denominated in RMB.

Other taxes payable

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.

Accrued expenses

The accrued expenses included staff costs of RMB7,844,000 as at 31 March 2023 (31 December 2021: RMB10,110,000).

27 DEFERRED INCOME

	31 March 2023 RMB'000	31 December 2021 RMB'000
Government grants relating to property, plant and equipment		
– Current portion	25	25
– Non-current portion	235	267
	260	292

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 profit or loss and other 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 period/year were as follows:

	Fifteen months ended 31 March 2023 RMB'000	Year ended 31 December 2021 RMB'000
At beginning of the period/year	292	317
Amortised as income (Note 9)	(32)	(25)
At the end of the period/year	260	292

28 RECEIPT IN ADVANCE

	31 March 2023 RMB'000	31 December 2021 RMB'000
Receipt in advance from operating leases	3,311	240

29 AMOUNT DUE TO RELATED PARTIES

	31 March 2023 RMB'000	31 December 2021 RMB'000
WONG Tseng Hon – a substantial shareholder (Note (i))	6,384	3,267
CHAI Kaw Sing – an executive-director (Note (i))	1,051	1,020
ZHANG Ayang – an executive-director (Note (ii))	360	1,948
	7,795	6,235

Note:

(i) The amounts due to Mr. Wong Tseng Hon and Mr. Chai Kaw Sing are interest-free, unsecured and repayable on demand. The directors of the Company considered that the carrying amounts are approximate their fair value.

(ii) The amount due to ZHANG Ayang is interest-free, unsecured and repayable on demand. The directors of the Company considered that the carrying amount is approximates its fair value.

30 CONVERTIBLE BONDS PAYABLE

The Company issued 10% convertible bonds at a par value of HK$7,800,000 in total on 24 March 2023 and will be matured on 23 March 2025. The convertible bonds are denominated in Hong Kong dollars. The bonds entitle the holders to convert them into ordinary shares of the Company on maturity date. The convertible bond is convertible into fully paid ordinary shares with par value of HK$0.01 each of the Company at an initial conversion price of HK$0.15. The Company may at any time before maturity date to redeem all or part of the convertible bond, and the early redemption right has been recognised as financial assets at fair value through profit or loss in Note 19. If the convertible bonds have not been converted, they will be redeemed on 23 March 2025 at par. Interest of 10% per annum will be payable semi-annually until the settlement date.

At initial recognition, the equity component of the convertible bonds was separated from the liability component and derivative component. The equity component is presented in equity heading “convertible bonds equity reserve” to the consolidated statement of changes in equity. The effective interest rate of the liability component is 9.06%.

30 CONVERTIBLE BONDS PAYABLE – *continued*

The movement of the liability component of the convertible bonds for the period/year is set out below:

	Fifteen months ended 31 March 2023 RMB'000	Year ended 31 December 2021 RMB'000
At the beginning of the period/year	–	–
Addition	6,925	–
Interest charged	12	–
Interest payable	(13)	–
Exchange loss	48	–
At the end of the period/year	6,972	–

31 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Borrowings and interest payable RMB'000	Bonds and interest payable RMB'000	Convertible bond and interest payable RMB'000	Total RMB'000
At 1 January 2021	28,900	31,801	–	60,701
Proceeds from borrowings	18,500	–	–	18,500
Repayments of borrowings	(12,613)	–	–	(12,613)
Interest expense	2,996	749	–	3,745
Interest paid	(2,111)	–	–	(2,111)
As at 31 December 2021	35,672	32,550	–	68,222
Proceeds from borrowings	13,151	–	–	13,151
Repayments of borrowings	(10,202)	(12,920)	–	(23,122)
Proceeds from issue of convertible bonds	–	–	6,786	6,786
Fair value adjustments	–	–	139	139
Exchange loss	–	–	48	48
Interest expense	5,914	1,126	12	7,052
Interest paid	(935)	(5,816)	–	(6,751)
Debt-restructuring	–	(14,940)	–	(14,940)
As at 31 March 2023	43,600	–	6,985	50,585

32 OPERATING LEASES COMMITMENTS

The Group as lessee

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:

	31 March 2023 RMB'000	31 December 2021 RMB'000
Within one year	27	87

The Group as lessor

All of the properties held by the Group for rental purposes have committed lessees for the next 3 to 20 years respectively.

Undiscounted lease payments receivable on leases are as follows:

	31 March 2023 RMB'000	31 December 2021 RMB'000
Within one year	3,829	2,413
In the second year	4,414	2,465
In the third year	4,450	2,526
In the fourth year	3,498	2,527
In the fifth year	2,055	2,403
After five years	22,362	25,702
	40,608	38,036

33 PLEDGED OF ASSETS

	31 March 2023 RMB'000	31 December 2021 RMB'000
Investment properties situated in the PRC	62,359	40,493
Property, plant and equipment situated in the PRC	4,386	36,100
Right-of-use assets situated in the PRC	2,753	7,352
	69,498	83,945

34 RELATED PARTY TRANSACTIONS

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 fifteen months ended 31 March 2023 and year ended 31 December 2021, and balances arising from related party transactions as at 31 March 2023 and 31 December 2021:

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

As at 31 March 2023, the Group's short-term borrowings of RMB16,154,000 (31 December 2021: RMB16,287,000) were guaranteed by Mr. Ke Mingcai, an ex-director of the Company, together with his spouse. Short-term borrowings of RMB8,500,000 (31 December 2021: RMB9,000,000) were guaranteed by Mr. Ke Mingcai together with Mr. Zhang Ayang (Note 25(b)).

(b) Key management personnel compensation

	Fifteen months ended 31 March 2023 RMB'000	Year ended 31 December 2021 RMB'000
Salaries and bonus	**1,610**	1,804
Retirement benefits scheme contributions	**–**	–
	1,610	1,804

35. RETIREMENT BENEFITS SCHEMES

The employees of the Company's subsidiaries in PRC are members of the pension scheme operated by the government of PRC. The Company's subsidiaries in PRC are required to contribute a certain percentage of the relevant portion of these employees' basic salaries to the pension to fund the benefits. The only obligation of the Company's subsidiary in PRC with respect to the pension scheme is the required contributions under the pension scheme.

The retirement benefits scheme contributions charged to profit or loss amounting to RMB111,000 (2021: RMB204,000) that represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

36 PARTICULARS OF SUBSIDIARIES

The Group's subsidiaries at 31 March 2023 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	Paid-up capital	Ownership interest held by the Group		Principal activities
			31 March 2023	31 December 2021	
Directly held:					
Heroic Group Limited 雄英集團有限公司	BVI, limited liability company	USD50,000	100%	100%	Investment holding
Indirectly held:					
Mei Sem (Hong Kong) Holding Co., Limited 美森（香港）控股有限公司	Hong Kong, limited liability company	HKD10,000	100%	100%	Investment holding
Dasen (Hong Kong) Holdings Company Limited 大森（香港）控股有限公司	Hong Kong, limited liability company	HKD10,000	100%	100%	Investment holding
Dasen Investment (Hong Kong) Company Limited 大森投資（香港）有限公司	Hong Kong, limited liability company	HKD1	100%	100%	Inactive
Meisen (Shandong) Wood Limited 美森（山東）木業有限公司	Shandong Province, limited liability company	RMB199,946,734	100%	100%	Manufacturing and sales of plywood and leasing business
Dasen (Heze) Biomass Energy Limited 大森（菏澤）生物質能源有限公司	Shandong Province, limited liability company	USD6,000,000	100%	100%	Leasing business
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	RMB10,000,000	100%	100%	Sales of plywood
Shenzhen Vfuchong Qucheng Technology Company Limited 深圳市微付充趣程科技有限公司	Shenzhen Province, limited liability company	RMB10,000,000	51%	–	Technology Development
Mei Sem (Hong Kong) Industrial Company Limited 美森（香港）工業有限公司	Hong Kong, limited liability company	HKD1	100%	–	Inactive

37 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Statement of financial position of the Company

	31 March 2023 RMB'000	31 December 2021 RMB'000
ASSETS		
Non-current assets		
Investment in subsidiaries	24,665	75,666
Financial assets at fair value through profit or loss	1,557	–
	26,222	75,666
Current assets		
Other receivables and prepayment	876	11
Amounts due from subsidiaries	23,815	23,815
Cash and cash equivalents	6,702	4
	31,393	23,830
Total assets	57,615	99,496
EQUITY		
Share capital	14,165	8,592
Share premium	233,241	212,502
Other reserves	136,448	136,448
Convertible bonds equity reserves	1,408	–
Accumulated losses	(359,192)	(307,422)
Total equity	26,070	50,120

37 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY – *continued*

(a) Statement of financial position of the Company – *continued*

	31 March 2023 RMB'000	31 December 2021 RMB'000
LIABILITIES		
Non-current liability		
Convertible bonds payable	6,972	–
Current liabilities		
Other payables and accrued expenses	13,022	15,730
Amount due to related parties	6,743	3,700
Amount due to subsidiaries	1,796	2,086
Borrowings	3,012	27,860
	24,573	49,376
Total liabilities	31,545	49,376
Total equity and liabilities	57,615	99,496

The statement of financial position of the Company was approved by the board of directors on 30 June 2023 and are signed on its behalf by:

CHAI Kaw Sing
Executive Director

WONG Ben
Executive Director

37 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY – *continued*

(b) Reserve movement of the Company

	Other reserves RMB'000	Accumulated losses RMB'000
At 1 January 2021	136,448	(238,446)
Loss for the year	–	(68,976)
At 31 December 2021	136,448	(307,422)
Loss for the period	–	(51,770)
At 31 March 2023	136,448	(359,192)

38 EVENTS AFTER THE REPORTING PERIOD

Debt capitalisation on other loan

On 20 January 2023, the Group signed a deed of settlement with a creditor of other loan which the loan principal and related interests payable amounted to RMB3,822,000. The creditor agreed the Group to settle the other loan with issue of 73,104,116 ordinary shares of the Company at HK$0.06 each. On 21 April 2023, the issue of shares are completed and delivered to the creditor.

Enforcement of pledge

On 11 April 2023, the Group received notices from the Court which stated that, the asset management company had applied to the Court for the enforcement of the pledge under the loan. As at 31 March 2023, the carrying value of these pledged assets was amounting to RMB31,283,000.

39 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation for the period.

SUMMARY FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 MARCH 2023

	Fifteen months ended 31 March	Year ended 31 December			
	2023	2021	2020	2019	2018
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000	RMB'000
Revenue	**59,487**	172,748	175,281	318,542	435,664
Gross (loss) profit	**(5,122)**	(57,051)	(113,802)	(28,652)	55,493
Operating (loss) profit	**(44,718)**	(115,365)	(202,828)	(76,175)	32,453
(Loss) Profit before income tax	**(51,770)**	(119,110)	(205,028)	(81,660)	26,622
Income tax credit (expense)	**–**	(41)	(6,246)	6,079	(7,349)
Total comprehensive (expense) income for the year, attributable to					
– Owners of the Company	**(50,799)**	(119,151)	(235,302)	(75,581)	19,273
– Non-controlling interests	**(971)**	–	–	–	–
	(51,770)	(119,151)	(235,302)	(75,581)	19,273
(Loss) earnings per share for profits attributable to owners of the Company					
– Basic and diluted	**(3.47 cents)**	(9.17 cents)	(24.15 cents)	(8.05 cents)	2.15 cents

	As at 31 March	As at 31 December			
	2023	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**76,628**	89,937	111,270	156,576	193,284
Current assets	**71,450**	90,748	164,345	346,115	350,031
Total assets	**148,078**	180,685	275,615	502,691	543,315
Non-current liabilities	**7,207**	267	317	23,078	24,722
Current liabilities	**114,801**	130,298	106,027	75,040	66,306
Total liabilities	**122,008**	130,565	106,344	98,118	91,028
Total equity attributable to					
– Owners of the Company	**27,041**	50,120	169,271	404,573	452,287
– Non-controlling interests	**(971)**	–	–	–	–
Total equity	**26,070**	50,120	169,271	404,573	452,287