

ZHI SHENG GROUP HOLDINGS LIMITED

智昇集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8370)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2017

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This announcement, for which the directors (the "Directors") of Zhi Sheng Group Holdings Limited (the "Company") collectively and individually accept full responsibilities, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") of the Stock Exchange for the purpose of giving information with regard to the Company and its subsidiaries (collectively, the "Group"). The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, there are no other matters the omission of which would make any statement herein or this announcement misleading.

FINANCIAL RESULTS

The board of Directors (the "Board") of the Company is pleased to present the unaudited consolidated results of the Group for the three months ended 31 March 2017, together with the comparative unaudited figures for the corresponding period in 2016 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2017

	Notes	For the three months ended 31 March	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Revenue	3	27,806	27,529
Cost of sales		(20,065)	(20,342)
Gross profit		7,741	7,187
Other income		39	18
Selling and distribution expenses		(1,088)	(1,050)
Administrative and other expenses		(4,630)	(5,531)
Finance costs		(476)	(441)
Profit before income tax		1,586	183
Income tax expense	4	(953)	(792)
Profit/(loss) for the period attributable to the owners of the Company		633	(609)
Other comprehensive income/(loss) for the period:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		423	(2,355)
Total comprehensive income/(loss) for the period attributable to the owners of the Company		1,056	(2,964)
Earnings/(loss) per share			
— Basic and diluted (RMB cents)	6	0.10	(0.15)

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 31 MARCH 2017

	Share capital (Note a) RMB'000	Share premium RMB'000	Other reserve RMB'000	Statutory reserve RMB'000	Foreign exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1 January 2016 (Audited)	62	-	-	724	(112)	18,328	19,002
Profit for the period	-	-	-	-	-	(609)	(609)

Other comprehensive income:							
Exchange difference arising on translating of foreign operations	-	-	-	-	(2,355)	-	(2,355)

Total comprehensive income for the period	-	-	-	-	(2,355)	(609)	(2,964)

Transfer to statutory reserve	-	-	-	298	-	(298)	-

As at 31 March 2016 (Unaudited)	62	-	-	1,022	(2,467)	17,421	16,038
As at 1 January 2017 (Audited)	-	80,702	(11,131)	1,872	(8,180)	17,439	80,702
Profit for the period	-	-	-	-	-	633	633

Other comprehensive income:							
Exchange difference arising on translating of foreign operations	-	-	-	-	423	-	423

Total comprehensive income for the period	-	-	-	-	423	633	1,056

Issue of shares (Note b)	2,369	71,075	-	-	-	-	73,444
Capitalisation (Note c)	3,554	(3,554)	-	-	-	-	-
Transaction costs attributable to the issue of shares	-	(10,234)	-	-	-	-	(10,234)
Transfer to statutory reserve	-	-	-	339	-	(339)	-

As at 31 March 2017 (Unaudited)	5,923	137,989	(11,131)	2,211	(7,757)	17,733	144,968

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 31 MARCH 2017

Notes:

- a. The share capital of the Group as at 31 March 2016 represented the aggregate amount of the share capital of the subsidiaries and was transferred to other reserve upon the reorganisation of the Group in connection with the listing of shares of the Company on the GEM (the "Reorganisation").
- b. On 19 January 2017, the Company placed 268,000,000 new shares at HK\$0.31 per share for a total gross proceeds of HK\$83,080,000 (the "Placing"). The proceeds (after deduction of underwriting fees and estimated expenses payable by the Company in relation to the Placing) will be used to finance the implementation plan as set forth in the section headed "Future Plans and Use of Proceeds" of the prospectus of the Company dated 30 December 2016 (the "Prospectus"). The proceeds of HK\$2,680,000 representing the par value of the shares of the Company, were credited to the Company's share capital and the remaining proceeds of HK\$80,400,000 before issuing expenses, were credited to share premium account of the Company.
- c. Pursuant to the written resolutions passed by the shareholders of the Company on 19 December 2016, the Directors were authorised to capitalise the amount of HK\$4,019,900 standing to the credit of the share premium account of the Company, a total of 401,990,000 ordinary shares credited as fully paid at par to the holders of shares of the Company on the register of members or principal share register of the Company at the close of business on 19 December 2016 in proportion (or as nearly as possible without fractions) to their then respective shareholdings of the Company (the "Capitalisation Issue").

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2017

1. CORPORATE INFORMATION

The Company was incorporated in Cayman Islands with limited liability on 4 March 2016. The address of its registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands. Its principal place of business in Hong Kong is at Level 12, China Minmetals Tower, 79 Chatham Road South, Tsim Sha Tsui, Kowloon, Hong Kong and its headquarters is at 3/F, 222 Tianren Road, Gaoxin District, Chengdu City, Sichuan Province, the Peoples' Republic of China (the "PRC").

The Company is an investment holding company. The Group is principally engaged in manufacture and sales of office furniture products in the PRC.

The shares of the Company were listed on the GEM of the Stock Exchange on 20 January 2017.

2. BASIS OF PREPARATION

The Group's unaudited condensed consolidated financial statements for the three months ended 31 March 2016 and 2017 have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and disclosure requirements of the GEM.

Other than the adoption of the new and revised HKFRs during the accounting period from 1 January 2017, the basis of preparation and accounting policies adopted in the preparation of such unaudited condensed consolidated financial statements are the same as those followed in the preparation of the annual financial statements for the year ended 31 December 2016.

The application of the new and revised HKFRs has no material impact on such unaudited condensed consolidated financial statements.

The Group did not adopt the new and revised HKFRs which had been issued but had not yet entered into force during the current accounting period of the Group.

The unaudited condensed consolidated financial statements are prepared on the historical cost basis.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2017

3. REVENUE

Revenue represented the net invoiced value of goods sold, net of allowances for returns, trade discounts and value added tax. An analysis of the Group's revenue and other income is as follows:

	For the three months ended 31 March	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Revenue of sales	27,806	27,529

4. INCOME TAX EXPENSE

	For the three months ended 31 March	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Current tax		
— Tax for the period	1,012	851
Deferred tax		
— Current period from January to March	(59)	(59)
	953	792

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is not subject to income tax.

No Hong Kong profit tax was provided in the consolidated financial statements as the Group has no estimated assessable profit derived from and earned in Hong Kong during the three months ended 31 March 2017 and 2016.

Provision for the enterprise income tax in the PRC is calculated on a statutory tax rate of 25% of the estimated assessable profit as determine in accordance with the relevant income tax law in the PRC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2017

5. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2017 (2016: Nil).

6. EARNINGS/(LOSS) PER SHARE

The basic earnings/(loss) per share attributable to the owners of the Company are calculated by the weighted average number of 670,000,000 shares and 402,000,000 shares of the Company in issue for the three months ended 31 March 2017 and 2016.

	For the three months ended 31 March	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Profit:		
The profit/(loss) used to calculate the basic earnings/(loss) per share for three months	633	(609)
	'000 shares	'000 shares
Number of shares:		
Number of shares used to calculate the basic earnings/(loss) per share	670,000	402,000

Note: The calculation of the basic earnings per share attributable to the owners of the Company is based on the profit for the three months ended 31 March 2017 of approximately RMB633,000 (for the three months ended 31 March 2016: approximately RMB(609,000)), and on the basis of 670,000,000 shares of the Company in issue for the three months ended 31 March 2017 (for the three months ended 31 March 2016: 402,000,000 shares in issue). Assuming such shares represent the number of shares of the Company immediately after the Reorganisation and the Capitalisation Issue as if these shares issued under the Reorganisation and the Capitalisation Issue had been issued on 1 January 2016. There were no potential ordinary shares in issue for the three months ended 31 March 2017 and 2016. Accordingly, the diluted earnings per share presented are the same as basic earnings per share. Meanwhile, because the Group has placed and issued 268,000,000 shares on 19 January 2017, the earnings per share are calculated by the weighted average number of 670,000,000 shares of the Company in issue.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the manufacture and sale of office furniture products in the PRC. The Group sells its products to the domestic PRC market with a large proportion of its sales derived from Sichuan province, Chongqing city, Tibet Autonomous Region and Yunnan province. The Group operates a sales office, Sichuan Greenland Furniture Co., Limited ("Sichuan Greenland"), in Chengdu city and a branch office, Chongqing Branch Office ("Chongqing Branch Office") of Sichuan Greenland, in Chongqing city.

During the first quarter of 2017, we faced a harsher economic environment for our business in China. The competitive bidding to supply office furniture and the competition among retail businesses were intense. Due to the impact of configuration cycle, the demand for office furniture of financial institutions outlets in Sichuan Province, Yunnan Province and other areas has decreased by a certain degree as compared to the previous years. The Company will face certain challenge in its development. The Company will consolidate the Group's market share in the five provinces in the southwest based on the established sales strategy and will strengthen the development of Jiangsu, Beijing, Guangdong and other developed provinces and the northwest regions to broaden the geographical coverage and reach to new customers in these regions.

Leveraging on years of experience and competitive strengths of the Group, including (i) quality of its products which are recognised by the PRC government and international certification organisations; (ii) its provision of custom-made office furniture to suit the needs of its customers; (iii) its provision of after-sales customer service to ensure its customers are satisfied with the quality of its products; (iv) its extensive experience and knowledge in dealing with PRC governmental departments, major financial institutions and state-owned entities; and (v) its experienced management team, the Group has effectively expanded markets outside the southwest regions of the PRC so that the overall sales can still maintain positive growth. For the three months ended 31 March 2017, the Group recorded a revenue of approximately RMB27.8 million, representing an increase of approximately 1.0% over the corresponding period in 2016.

The Group recorded a loss of approximately RMB0.6 million for the three months ended 31 March 2016 and managed to turn to a profit of approximately RMB0.6 million for the three months ended 31 March 2017. The increase in profit was mainly attributable to the decrease of approximately RMB1.1 million in the listing expenses for the three months ended 31 March 2017 as compared with the corresponding period in 2016. After deducting the listing expenses for the corresponding periods, we still recorded a profit of approximately RMB3.0 million for the three months ended 31 March 2017, representing an increase of approximately 5.5% as compared with the corresponding period in 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company was successfully listed on GEM on 20 January 2017 (the “Listing Date”). The net proceeds received from the Placing have strengthened the Group’s cash flow.

Looking forward, the Group will make steady progress in accordance with the plans formulated before its listing and its actual operational conditions, so as to facilitate effective implementation of the business objectives of the Company and bring benefits from it. The business strategies included: (i) observing market trends and adjusting our strategies to adapt accordingly; (ii) renovating and refurbishing our exhibition hall; (iii) expanding our market presence in the PRC; and (iv) acquiring new machinery and equipment. The Group believes that successful implementation of the above business strategies will help the Group to enhance its competitiveness in the office furniture market and retain more customers. Also, listing may enhance our reputation and brand as a reliable supplier of quality office furniture to government, corporate and institutional customers in the PRC.

In terms of sales strategy, the Group will secure its market share in five southwest provinces through Sichuan Greenland, an indirect wholly-owned subsidiary of the Company, and strengthen the development in developed provinces and municipalities such as Jiangsu, Beijing and Guangdong and the northwestern regions of the PRC. Currently, we have discussed our cooperation intention with potential agencies in those areas, with a view to extend our geographical coverage and reach new customers in those districts. Such areas are believed to be new sales growth drivers, which provide strong support for revenue growth target of the Company in the coming two years.

With regard to our branch office, Chongqing Branch Office, the Group renovated its exhibition hall, which would help to raise the attractiveness of the Group’s products and enhance its brand image.

The advertising fees and promotion fees for 2017 is expected to be higher than that of 2016. The Group believes that promotional activities can bring sales growth.

On the other hand, in accordance with established targets, the Group will adopt effective measures to exercise strict control over the growth of manpower, sales and distribution and administrative expenses and ensure successful achievement of profit target set by the Group. The Group is committed to enhancing its market competitiveness, creating sustainable returns and maximising wealth for the shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the three months ended 31 March 2017, the Group achieved a revenue of approximately RMB27.8 million, representing an increase of approximately 1.1% as compared to the three months ended 31 March 2016. In particular, the revenue of Sichuan Greenland was approximately RMB25.9 million, representing a slight decrease of approximately 0.1% as compared to the three months ended 31 March 2016. The revenue of Chongqing Branch Office was approximately RMB1.9 million, representing an increase of approximately 18.2% as compared to the three months ended 31 March 2016. Such increases were primarily due to the growth in sales of two private customers in Jiangsu and Guangdong. Meanwhile, after the completion of decoration of exhibition hall in Chongqing Branch Office, the sales were boosted as well.

Cost of sales

Cost of sales mainly comprised (i) raw materials used for production; (ii) cost of goods purchased, (iii) labour costs; and (iv) production overheads such as depreciation. For the three months ended 31 March 2017, the Group's cost of sales amounted to approximately RMB20.1 million, representing a decrease of approximately 1.0% from approximately RMB20.3 million for the three months ended 31 March 2016. Such decrease was mainly due to the decrease of approximately RMB0.5 million in cost of raw material used for the three months ended 31 March 2017 as compared with the corresponding period in 2016.

Gross profit increased from approximately RMB7.2 million for the three months ended 31 March 2016 to approximately RMB7.7 million for the three months ended 31 March 2017. Gross profit margin increased from approximately 26.1% for the three months ended 31 March 2016 to approximately 27.8% for the three months ended 31 March 2017. Such increase was mainly due to the decrease of RMB0.5 million in cost of raw material used for the three months ended 31 March 2017 as compared with the corresponding period in 2016.

Other income

For the three months ended 31 March 2017, the Group's other income amounted to approximately RMB39,000, representing an increase of approximately 116.7% from approximately RMB18,000 for the three months ended 31 March 2016. Such increase was mainly attributable to the significant increase in bank deposits for the three months ended 31 March 2017 as compared to the corresponding period in 2016, resulting in a significant increase in interests.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative and other expenses

For the three months ended 31 March 2017, the Group's administrative and other expenses amounted to approximately RMB4.6 million, representing a decrease of approximately 16.4% from approximately RMB5.5 million for the three months ended 31 March 2016. Such decrease was mainly attributable to the recognition of listing expenses of approximately RMB2.3 million during the period ended 31 March 2017, representing a decrease of RMB1.1 million from the recognition of listing expenses of approximately RMB3.4 million during the corresponding period in 2016.

Selling and distribution expenses

For the three months ended 31 March 2016 and 2017, the Group's selling and distribution expenses remained stable at approximately RMB1.1 million.

Income tax expense

For the three months ended 31 March 2017, the Group's income tax expense amounted to approximately RMB1.0 million, representing an increase of approximately 25.0% from approximately RMB0.8 million for the three months ended 31 March 2016. Such increase was mainly attributable to an increase in taxable profit of the Group generated in the relevant period.

Pledge of assets

As of 31 March 2017, the land use rights and property of the Group's production facilities in Chengdu City were pledged as security for a bank borrowing in the amount of RMB30.0 million.

OTHER INFORMATION

SHARE OPTION SCHEME

The shareholders of the Company approved and adopted the share option scheme of the Company (the "Share Option Scheme") by way of written resolutions on 19 December 2016. No share option has been granted since the adoption of the Share Option Scheme and there was no share option outstanding as at 31 March 2017.

DEED OF NON-COMPETITION

A deed of non-competition (the "Deed of Non-Competition") dated 19 December 2016 was entered into by Mr. Ma Gary Ming Fai and Sun Universal Limited (being controlling shareholders of the Group) in favour of the Company (for itself and each of its subsidiaries). The details of the Deed of Non-Competition have been disclosed in the Prospectus under the section headed "Relationship with Controlling Shareholders — Non-Completion Undertakings" of the Prospectus.

POTENTIAL COMPETING INTERESTS

As at 31 March 2017, Mr. Ma Gary Ming Fai remains the sole shareholder of Myshowhome International Limited ("Myshowhome International", together with its subsidiaries, the "Myshowhome Group"). Myshowhome International holds 100% interest in Myshowhome (Hong Kong) Limited ("Myshowhome HK"), which in turn holds 100% interest in Dongguan Shangpin Furniture Co., Ltd. (東莞市尚品家具有限公司). Mr. Ma Gary Ming Fai confirms that Myshowhome International and Myshowhome HK are both investment holding companies. As the Group manufactures and sells office furniture and although the Group's focus is on office furniture while Myshowhome Group's focus is on sofas and sofa-beds, Myshowhome Group may potentially compete with the Group. For further details, please refer to the section headed "Relationship with Controlling Shareholders" in the Prospectus.

Save as disclosed above, none of the controlling shareholders, the Directors and their respective close associates (as defined under the GEM Listing Rules) has any interest in a business apart from Group's business which competes or is likely to compete, directly or indirectly, with the Group's business as at 31 March 2017.

OTHER INFORMATION

AUDIT COMMITTEE

The Company established the Audit Committee (the "Audit Committee") on 19 December 2016 with written terms of reference. The full terms of reference setting out details of duties of the Audit Committee is available on the websites of the Stock Exchange and the Company.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Chan Wing Kit, Ms. Cao Shao Mu and Mr. Kwok Sui Hung. Mr. Chan Wing Kit is the chairman of the Audit Committee.

The Audit Committee has reviewed the Group's unaudited consolidated financial statements for the three months ended 31 March 2017. The Audit Committee is of the view that the unaudited consolidated results are in compliance with the applicable accounting standards, the GEM Listing Rules and other legal requirements, and that the sufficient disclosure was made.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct ("Code of Conduct") regarding securities transactions by the Directors. The Company has confirmed, having made specific enquiry of the Directors, that all the Directors have complied with the Code of Conduct throughout the three months ended 31 March 2017 and up to the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period from the Listing Date to the date of this announcement, the Company did not redeem its listed securities, nor did the Company or any of its subsidiaries purchase or sell any of the Company's listed securities.

OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

The Group is committed to ensuring high standards of corporate governance and business practices. The Company's corporate governance practices are based on the Corporate Governance Code (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules. During the period from the Listing Date to the date of this announcement, the Company has complied with the applicable code provisions of the CG Code.

By order of the Board
Zhi Sheng Group Holdings Limited
Yi Cong
Executive Director

Hong Kong, 12 May 2017

As at the date of this announcement, the Board comprises Mr. Yi Cong and Mr. Liang Xing Jun as executive Directors; Mr. Ma Gary Ming Fai as non-executive Director; and Mr. Chan Wing Kit, Ms. Cao Shao Mu and Mr. Kwok Sui Hung as independent non-executive Directors.

This announcement will remain on the Stock Exchange's website at www.hkexnews.hk, on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the Company's website at www.qtbjji.com.