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

2017
INTERIM REPORT

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

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This report, 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, (1) the information contained in this report is accurate and complete in all material respects and not misleading or deceptive; and (2) there are no other matters the omission of which would make any statement herein or this report misleading.

FINANCIAL RESULTS

SUMMARY

- The Group recorded revenue of approximately RMB47.7 million for the six months ended 30 June 2017, representing an increase of approximately 1.1% as compared with the six months ended 30 June 2016.

- The Group recorded a loss of approximately RMB0.1 million for the six months ended 30 June 2016 and managed to turn to a profit of approximately RMB0.6 million for the six months ended 30 June 2017. The increase in profit was mainly attributable to the decrease of approximately RMB1.1 million in the listing expenses for the six months ended 30 June 2017 as compared with the corresponding period in 2016.

- The basic earnings per share for the six months ended 30 June 2017 was approximately RMB0.10 cent, while the basic loss per share for the six months ended 30 June 2016 was approximately RMB0.03 cent.

FINANCIAL RESULTS

The board of Directors of the Company (the "**Board**") is pleased to present the unaudited condensed consolidated results of the Group for the three months and the six months ended 30 June 2017, together with the comparative figures for the three months and the six months ended 30 June 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 JUNE 2017

		For the three months ended 30 June		For the six months ended 30 June	
	Notes	**2017 RMB'000 (Unaudited)**	2016 RMB'000 (Unaudited)	**2017 RMB'000 (Unaudited)**	2016 RMB'000 (Unaudited)
Revenue	*3*	**19,939**	19,700	**47,745**	47,229
Cost of sales		**(13,711)**	(15,322)	**(33,776)**	(35,664)
Gross Profit		**6,228**	4,378	**13,969**	11,565
Other income	*4*	**13**	173	**52**	191
Selling and distribution expenses		**(1,513)**	(872)	**(2,601)**	(1,922)
Administrative expenses		**(3,778)**	(2,384)	**(8,408)**	(7,915)
Finance costs	*5*	**(400)**	(447)	**(876)**	(888)
Profit before income tax		**550**	848	**2,136**	1,031
Income tax expense	*6*	**(572)**	(347)	**(1,525)**	(1,139)
Profit/(loss) for the period attributable to the owners of the Company		**(22)**	501	**611**	(108)
Other comprehensive income/(loss) for the period:					
Item that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations		**(923)**	(1,750)	**(500)**	(4,105)
Total comprehensive income/(loss) for the period attributable to the owners of the Company		**(945)**	(1,249)	**111**	(4,213)
Earnings/(loss) per share — Basic and diluted (RMB cents)	*8*	**(0.003)**	0.12	**0.10**	(0.03)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Notes	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**53,030**	54,140
Payments for leasehold land held for own use under operating leases		**14,718**	14,888
Total non-current assets		**67,748**	69,028
Current assets			
Payments for leasehold land held for own use under operating leases		**230**	230
Inventories		**17,257**	18,273
Trade and other receivables	*9*	**60,066**	46,745
Tax recoverable		**–**	–
Cash and cash equivalents		**55,103**	27,632
Total current assets		**132,656**	92,880
Total assets		**200,404**	161,908
Current liabilities			
Trade and other payables	*10*	**20,356**	30,545
Bank borrowing		**30,000**	30,000
Amounts due to directors		**–**	644
Amounts due to shareholders		**–**	13,845
Tax payable		**207**	236
Total current liabilities		**50,563**	75,270
Net current assets/(liabilities)		**82,093**	17,610
Total assets less current liabilities		**149,841**	86,638
Non-current liabilities			
Deferred tax liabilities		**5,818**	5,936
Total non-current liabilities		**5,818**	5,936
Total liabilities		**56,381**	81,206
NET ASSETS		**144,023**	80,702

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Notes	**30 June 2017 RMB'000 (Unaudited)**	31 December 2016 RMB'000 (Audited)
EQUITY			
Equity attributable to owners of the Company		**–**	–
Share capital		**5,923**	–
Reserves		**138,100**	80,702
TOTAL EQUITY		**144,023**	80,702

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 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	–	–	–	–	–	(108)	(108)
Other comprehensive income: Exchange difference arising on translating of foreign operations	–	–	–	–	(4,105)	–	(4,105)
Total comprehensive income for the period	–	–	–	–	(4,105)	(108)	(4,213)
Transfer to statutory reserve	–	–	–	485	–	(485)	–
As at 30 June 2016 (Unaudited)	62	–	–	1,209	(4,217)	17,735	14,789
As at 1 January 2017 (Audited)	–	80,702	(11,131)	1,872	(8,180)	17,439	80,702
Profit for the period	–	–	–	–	–	611	611
Other comprehensive income: Exchange difference arising on translating of foreign operations	–	–	–	–	(500)	–	(500)
Total comprehensive income for the period	–	–	–	–	(500)	611	111
Issue of shares *(Note b)*	2,369	71,075	–	–	–	–	73,444
Capitalisation issue *(Note c)*	3,554	(3,554)	–	–	–	–	
Transaction costs attributable to the issue of shares	–	(10,234)	–	–	–	–	(10,234)
Transfer to statutory reserve	–	–	–	489	–	(489)	–
As at 30 June 2017 (Unaudited)	5,923	137,989	(11,131)	2,361	(8,680)	17,561	144,023

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017

Notes:

a. The share capital of the Group as at 30 June 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**").

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before income tax	**2,304**	1,031
Adjustments for:		
Amortisation of payments for leasehold land held for own use under operating leases	**170**	170
Depreciation of property, plant and equipment	**1,540**	1,980
Loss on disposal of property, plant and equipment	**3**	(4)
Income from trade payable written off	**–**	(168)
Interest income	**(52)**	(23)
Finance costs	**876**	888
Operating profit before working capital changes	**4,841**	3,874
Decrease in inventories	**848**	12,771
(Increase)/decrease in trade and other receivables	**(13,321)**	(14,041)
Decrease in trade and other payables	**(10,190)**	(13,055)
Cash generated from operations	**(17,822)**	(10,451)
Income tax paid	**(1,672)**	(1,572)
Interest received	**52**	23
Interest paid	**(876)**	(888)
Net cash generated from/(used in) operating activities	**(20,318)**	(12,888)
Cash flows from investing activities		
Purchases of property, plant and equipment	**(432)**	(772)
Gain from disposal of fixed assets	**–**	–
Net cash used in investing activities	**(432)**	(772)
Cash flows from financing activities		
Proceeds from issue of shares	**63,210**	–
Proceeds from bank and other borrowings	**–**	–
Repayment of bank and other borrowings	**–**	–
(Repayments to)/advances from directors	**(644)**	(4,190)
Advances from shareholders	**(13,845)**	13,395
Net cash from financing activities	**48,721**	9,205

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net increase/(decrease) in cash and cash equivalents	**27,971**	(4,455)
Cash and cash equivalents at beginning of year	**27,632**	19,981
Effect of foreign exchange rate changes on cash and cash equivalents	**(500)**	(4,105)
Cash and cash equivalents at end of year	**55,103**	11,421
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**55,103**	11,421

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 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 six months ended 30 June 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 Listing Rules.

Other than the adoption of the new and revised HKFRSs 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 HKFRSs has no material impact on such unaudited condensed consolidated financial statements.

The Group did not adopt the new and revised HKFRSs 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 SIX MONTHS ENDED 30 JUNE 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 30 June		For the six months ended 30 June	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue of sales	**19,939**	19,700	**47,745**	47,229

4. OTHER INCOME

	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Income from trade payables written off	**–**	168	**–**	168
Interest income	**13**	5	**52**	23
Grants income	**–**	–	**–**	–
	13	173	**52**	191

5. FINANCE COSTS

	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Interest on bank borrowings	**400**	447	**876**	888

6. INCOME TAX EXPENSE

	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Current tax				
— Tax for the period	**632**	407	**1,644**	1,258
Deferred tax				
— Current period	**(60)**	(60)	**(119)**	(119)
	572	347	**1,525**	1,139

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 in the Cayman Islands.

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 six months ended 30 June 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.

7. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017 (2016: Nil).

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

8. EARNINGS/(LOSS) PER SHARE

The earnings/(loss) per share is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of 670,000,000 shares and 402,000,000 shares of the Company in issue for the three months and the six months ended 30 June 2017 and 2016.

	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Profit/(loss):				
The profit/(loss) used to calculate the basic earnings/(loss) per share for six months	**(22)**	501	**611**	(108)
	'000 shares	'000 shares	**'000 shares**	'000 shares
Number of shares used to calculate the basic earnings/(loss) per share	**670,000**	402,000	**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 six months ended 30 June 2017 of approximately RMB779,010 (for the six months ended 30 June 2016: approximately RMB(107,576)), and on the weighted average number of 670,000,000 shares of the Company in issue as of 30 June 2017 (30 June 2016: 402,000,000 shares in issue). The calculation also assumes as if the number of shares of the Company issued and outstanding immediately after the Reorganisation and the Capitalisation Issue had been issued and outstanding as of 1 January 2016. There were no potential ordinary shares in issue for the six months ended 30 June 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.

No diluted earnings per share for the current and prior period was presented as there were no dilutive potential ordinary shares in issue.

9. TRADE AND OTHER RECEIVABLES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Trade receivables	39,187	16,229
Other receivables	4,493	1,370
Prepayments and deposits	16,386	29,146
	60,066	46,745

The Group did not hold any collateral as security or other credit enhancements over the trade receivables. The credit periods on sales of goods for customers are normally within 90 days from invoice date.

Included in trade and other receivables are trade receivables (net of impairment losses) with the following ageing analysis, based on invoice dates, as of the end of reporting period.

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Within 3 months	22,685	6,871
More than 3 months	16,502	9,358
	39,187	16,229

The ageing of trade receivables which are not impaired are as follows:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Within the credit period	30,648	12,528
Less than 1 month past due	2,331	816
1 to 3 months past due	3,934	269
More than 3 months but less than 6 months past due	1,534	609
More than 6 months past due	740	2,007
	39,187	16,229

Trade receivables that were neither past due nor impaired related to a number of customers for whom there was no recent history of default. Trade receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past credit experience, the management of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

10. TRADE AND OTHER PAYABLES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Trade payables	**7,803**	7,252
Other payables and accruals	**8,489**	15,006
Receipts in advance	**4,064**	8,287
	20,356	30,545

Included in trade and other payables are trade payables with the following ageing analysis, based on invoice dates, as of the end of reporting period:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Within 3 months	**2,358**	2,122
More than 3 months	**5,445**	5,130
	7,803	7,252

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 sells its products to the customers mainly through two sales channels, namely participating in biddings and direct sales. The Group's sales offices, namely Sichuan Greenland and a branch office in Chongqing ("**Chongqing Branch Office**"), are located in Chengdu city and Chongqing city, respectively.

During the first half of 2017, the Group faced a harsher economic environment for 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 significantly 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 six months ended 30 June 2017, the Group recorded a revenue of approximately RMB47.7 million, representing an increase of approximately 1.1% as compared to the corresponding period in 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group recorded a loss of approximately RMB0.1 million for the six months ended 30 June 2016 and managed to turn to a profit of approximately RMB0.6 million for the six months ended 30 June 2017. The increase in profit was mainly attributable to the decrease of approximately RMB1.1 million in the listing expenses for the six months ended 30 June 2017 as compared with the corresponding period in 2016. After deducting the listing expenses for the corresponding periods, the Group recorded a profit of approximately RMB3.2 million for the six months ended 30 June 2017, representing a decrease of approximately 13.5% as compared with the corresponding period in 2016. The decrease in profit was mainly attributable to the increase of audit, intermediary consultancy and other relevant fees of approximately RMB1.0 million after the listing of the Group.

The Company 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 include: (i) observing market trends and adjusting the Group's strategies to adapt accordingly; (ii) renovating and refurbishing the exhibition hall; (iii) expanding the Group's 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 the Group's 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. The Group has been in discussion with potential agencies its cooperation intention in those areas, with a view to extend its 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 Group in the coming two years.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has renovated the exhibition hall in its branch office, Chongqing Branch Office, which would help to raise the attractiveness of the Group's products and enhance its brand image.

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.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2017, the Group generated revenues of approximately RMB47.7 million, representing an increase of approximately 1.1% as compared to the six months ended 30 June 2016. The revenue of Sichuan Greenland was approximately RMB43.9 million, representing a slight increase of approximately 3.5% as compared to the six months ended 30 June 2016. Such increases were primarily due to the sales generated from four non-governmental customers in Jiangsu, Sichuan and Guangdong. The revenue of Chongqing Branch Office was approximately RMB3.8 million, representing a decrease of approximately 20.8% as compared to the six months ended 30 June 2016.

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 six months ended 30 June 2017, the Group's cost of sales amounted to approximately RMB33.8 million, representing a decrease of approximately 5.3% from approximately RMB35.7 million for the six months ended 30 June 2016. Such decrease was mainly due to the decrease in cost of raw material of approximately RMB0.4 million, the decrease in salary of production staff of approximately RMB0.6 million and the decrease in other production expenses of approximately RMB0.6 million for the six months ended 30 June 2017 as compared with the corresponding period in 2016.

Gross profit

Gross profit increased from approximately RMB11.6 million for the six months ended 30 June 2016 to approximately RMB14.0 million for the six months ended 30 June 2017. Gross profit margin increased from approximately 24.5% for the six months ended 30 June 2016 to approximately 29.3% for the six months ended 30 June 2017. Such increase was mainly due to the decrease in cost of raw material of approximately RMB0.4 million, the decrease in salary of production staff of approximately RMB0.6 million, the decrease in other production expenses of approximately RMB0.6 million for the six months ended 30 June 2017 as compared with the corresponding period as well as the significant decrease (for the six months ended 30 June 2017 as compared with the corresponding period in 2016) in the proportion of sales to financial institutions customers in the PRC which tend to record lower gross profit margin.

Other income

For the six months ended 30 June 2017, the Group's other income amounted to approximately RMB52,000, representing a decrease of approximately 72.8% from approximately RMB0.191 million for the six months ended 30 June 2016. Such decrease was mainly attributable to income from written off of trade payable of approximately RMB0.168 million for the corresponding period in 2016 compared to nil for the six months ended 2017. The Group's bank deposits increased for the six months ended 30 June 2017 as compared to the corresponding period in 2016, resulting in an increase in interest income.

Administrative expenses

For the six months ended 30 June 2017, the Group's administrative expenses amounted to approximately RMB8.4 million, representing an increase of approximately 6.3% from approximately RMB7.9 million for the six months ended 30 June 2016. Such increase was mainly attributable to the increase during the six months ended 30 June 2017 in audit, intermediary consultancy and other relevant fees of approximately RMB1.0 million after the listing.

Selling and distribution expenses

For the six months ended 30 June 2017, the selling and distribution expenses of the Group amounted to approximately RMB2.6 million, representing an increase of approximately 36.8% from approximately RMB1.9 million for the six months ended 30 June 2016. Such increase was mainly attributable to the commencement of depreciation of the renovation of exhibition hall of Chongqing Branch Office as well as the increase in operating expense due to expansion of sales channels.

MANAGEMENT DISCUSSION AND ANALYSIS

Income tax expense

For the six months ended 30 June 2017, the Group's income tax expense amounted to approximately RMB1.5 million, representing an increase of approximately 36.4% from approximately RMB1.1 million for the six months ended 30 June 2016. Such increase was mainly attributable to an increase in taxable profit of the Group generated in the relevant period.

LIQUIDITY AND FINANCIAL RESOURCES

For the six months ended 30 June 2017, the Group financed its operations by internally generated cash flow, banking facilities provided by banks and net proceeds from the placing of new shares. The Group had net current assets of RMB82.1 million as at 30 June 2017 (31 December 2016: RMB17.6 million) including bank balances and cash of approximately RMB55.1 million (31 December 2016: RMB27.6 million). The Group had outstanding an interest bearing bank loan of RMB30.0 million (31 December 2016: RMB30.0 million). The Group's current ratio (defined as the ratio of current assets to current liabilities) was approximately 2.6 as at 30 June 2017 (31 December 2016: 1.2).

CAPITAL STRUCTURE

The Group's total equity attributable to the owners of the Company amounted to RMB144.0 million as at 30 June 2017 (31 December 2016: RMB80.7 million). The Group's total equity attributable to the owners of the Company includes share capital and capital reserve.

The Group had an outstanding bank loan in the principal amount RMB30.0 million as at 30 June 2017 which was due on 28 July 2017. The Group had already repaid the bank loan on 28 July 2017 and do not have any other bank loan outstanding.

GEARING RATIO

The Group's gearing ratio (defined as total debts divided by total equity. Total debts represents all liabilities excluding trade payables, tax payable, deferred tax liabilities and provision (if any).) amounted to approximately 0.3 times as at 30 June 2017 (31 December 2016: approximately 0.8 times).

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

The Group was a defendant in a lawsuit in relation to a contract dispute regarding a sale agreement entered into between the plaintiff, which was its customer, and the Group (the "**Agreement**"). On 20 May 2014, the plaintiff filed a lawsuit with the People's Court of Qingyang District, Chengdu City, Sichuan Province (成都市青羊區人民法院) ("**Qingyang District Court**") on the ground that the Group had provided substandard products and delayed the delivery and assembly of the product and that resulted in a breach of the Agreement. On 19 December 2016, Sichuan Province Intermediate People's Court delivered the following judgment ("**Judgments of Second Instance**"): (i) the original sentence of Qingyang District Court on the delivery and replacement of furniture was upheld; (ii) the operating expenses paid by the plaintiff to the Group was changed from RMB140,000 to RMB114,000; (iii) the Group was ordered to pay the plaintiff an amount of RMB140,000 as liquidated damages for delayed delivery and installation of furniture and an amount of RMB5,000 as liquidated damages for sub-standard products. On 5 January 2017, the Group submitted a retrial request on the Judgments of Second Instance to Sichuan Higher People's Court (四川省高級人民法院) ("**Sichuan Provincial High Court**"). On 4 July 2017, Sichuan Provincial High Court overruled the Group's application for retrial. The Group decided not to contest the ruling from the Sichuan Provincial High Court.

Save as disclosed above, the Group had no significant contingent liabilities as at 30 June 2017.

SIGNIFICANT INVESTMENTS HELD

For the six months ended 30 June 2017, the Group did not have any significant investments apart from those already disclosed in the Prospectus.

FOREIGN EXCHANGE EXPOSURE

As the Group conducts its business transactions principally in RMB, the Group's exposure to foreign currency fluctuations is minimal. The Group was not a party to any foreign exchange hedging instrument as at 30 June 2017. However, the Group will review and monitor from time to time the risk relating to foreign exchange.

INFORMATION ON EMPLOYEES

As at 30 June 2017, the Group engaged a total of 240 employees (2016: 238) including the Directors. For the six months ended 30 June 2017, total staff costs amounted to approximately RMB4.7 million (2016: approximately RMB4.9 million). Remuneration (including employees' benefits) is maintained at an attractive level and reviewed on a periodic basis. Employees' salary and relevant benefits are determined on the basis of performance, qualification, experience, positions and the Group's business performance.

PLEDGE OF ASSETS

During the six months ended 30 June 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.

DISCLOSURE OF INTERESTS

(a) Interests and short positions of Directors and chief executive in shares, underlying shares and debentures of the Company and its associated corporations

As the Company was not listed on the Stock Exchange as at 31 December 2016, Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance ("**SFO**") and section 352 of the SFO were not applicable to the Directors or chief executive of the Company as at 31 December 2016.

As at 30 June 2017, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) 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 they were taken or deemed to have under such provisions of the SFO) or (ii) to be entered into the register required to be kept therein, pursuant to section 352 of the SFO, or (iii) to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules relating to the required standard of dealings by directors were as follows:

Name of Director	Capacity/ Nature of interest	Number of shares held/interested	Percentage of shareholdings
Mr. Ma Gary Ming Fai ("Mr. Ma")	Interest in a controlled corporation *(Note 1)*	245,300,400 (Long position)	36.62%
Mr. Yi Cong	Interest of a spouse *(Note 2)*	116,580,000 (Long position)	17.40%

Notes:

1. The shares are held by Sun Universal Limited, the equity interest of which is owned as to 100% by Mr. Ma. Accordingly, Mr. Ma is deemed to be interested in all the shares held by Sun Universal Limited for the purpose of Part XV of the SFO.

2. Mr. Yi Cong is the spouse of Ms. Zhang Gui Hong. Accordingly, Mr. Yi Cong is deemed to be interested in all the shares which Ms. Zhang Gui Hong is interested for the purpose of Part XV of the SFO.

Save as disclosed above, as at 30 June 2017, none of the Directors and the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) 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/or short positions which they were taken or deemed to have under such provisions of the SFO) or (ii) to be entered into the register required to be kept therein, pursuant to section 352 of the SFO, or (iii) to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules relating to the required standard of dealings by directors.

(b) Interests and short positions of the substantial shareholders in the shares and underlying shares

As the Company was not listed on the Stock Exchange as at 31 December 2016, Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO were not applicable to the Company as at 31 December 2016.

As at 30 June 2017, the following persons (not being a Director or chief executive of the Company) had or were deemed to have interests in shares or underlying shares which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the GEM Listing Rules.

Name of shareholder	Capacity/ Nature of interest	Number of shares held/ interested	Percentage of shareholdings
Sun Universal Limited	Beneficial owner	245,300,400 (Long position)	36.62%
Ms. Hung Fung King Margaret	Interest of spouse *(Note 1)*	245,300,400 (Long position)	36.62%
Brilliant Talent Global Limited	Beneficial owner *(Note 2)*	116,580,000 (Long position)	17.40%
Ms. Zhang Gui Hong	Interest in a controlled corporation *(Note 2)*	116,580,000 (Long position)	17.40%

Note:

1. Ms. Hung Fung King Margaret is the spouse of Mr. Ma. Accordingly, Ms. Hung Fung King Margaret is deemed to be interested in the shares held by Mr. Ma for the purpose of Part XV of the SFO.

2. The entire issued share capital of Brilliant Talent Global Limited is owned by Ms. Zhang Gui Hong. Accordingly, Ms. Zhang Gui Hong is deemed to be interested in all the shares held by Brilliant Talent Global Limited for the purpose of Part XV of the SFO.

Save as disclosed above, as at 30 June 2017, the Directors had not been notified by any person who had interests or short positions in the shares, underlying shares or debentures of the Company required to be recorded in the register pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

MANAGEMENT DISCUSSION AND ANALYSIS

Comparison of Business Objectives with Actual Business Progress and Use of Proceeds from the Placing of Shares

The Company successfully placed a total of 268,000,000 new shares of the Company at a placing price of HK$0.31 per share. Net proceeds from the Placing amounted to approximately HK$59.7 million (after deducting the underwriting fees and other related expenses).

During the six months ended 30 June 2017, the Group applied the net proceeds for the following purposes:

	Use of proceeds in the same manner and proportion as stated in Prospectus HK$ million	Actual use of proceeds during the Review Period HK$ million
Renovation of the Group's exhibition hall in Sichuan Greenland	**5.0**	1.5
Acquisition of new machinery and equipment	**10.9**	0
Repayment of existing short-term bank borrowings of the Group	**42.8**	7.2
The Group's working capital and other general corporate purposes	**1.0**	0
	59.7	8.7

The renovation progress of the exhibition hall in Chengdu was behind the original schedule due to the reason of the construction contractor. The overall renovation progress is still expected to be completed by 31 December 2017 as scheduled. As such, the use of such budget was postponed accordingly. The proceeds yet to be utilised were placed on interest-bearing deposits with licensed banks in Hong Kong and the PRC. In addition, by 30 June 2017, the Group repaid a loan of approximately HK$7.2 million to financial institutions in Hong Kong. The CITIC Bank loan of RMB30 million (HK$35.6 million) was previously scheduled to be repaid by 30 June 2017. In light of the complex procedure of early repayment and the repayment date pursuant to the relevant loan contract was 28 July 2017 which was close to the aforesaid repayment schedule, the Group repaid the loan on 28 July 2017.

OTHER INFORMATION

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the Prospectus, the Group did not as at 30 June 2017 have other future plans for material investments or capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the six months ended 30 June 2017, the Group did not have any material acquisitions nor disposals of subsidiaries and affiliated companies save for those reorganisation activities done for the purpose of listing of the Company as set out in the paragraph headed "Reorganisation" under the section headed "History, Reorganisation and Corporate Structure" in the Prospectus.

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. Since the adoption, no share option has been granted under the Share Option Scheme, and no share option has been granted as at 30 June 2017.

COMPETING INTEREST

Mr. Ma is 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) ("**Shangpin**"). Shangpin is a wholly foreign-owned enterprise established under the laws of the PRC on 10 July 2012 with a registered capital of HK$8 million and is principally engaged in the manufacturing of sofas and sofa-beds for export to places outside the PRC. Mr. Ma confirms that Myshowhome International and Myshowhome HK are both investment holding companies.

OTHER INFORMATION

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. However, the Company considers that such potential competition is not and is unlikely to be significant in light of the following:

(a) as a non-executive Director, Mr. Ma will not take part in the day-to-day management or operations of the Group but rather, he will oversee the strategic and overall development of the Group;

(b) the business focus of the Group and Myshowhome Group are fundamentally different. In particular, Myshowhome Group's business focuses on the manufacturing of sofas and sofabeds for export and sale outside the PRC, whereas the Group's business focuses on the manufacturing of office furniture (including sofas and sofa-beds) for sale in the PRC market;

(c) during the six months ended 30 June 2017, all of the Group's products were sold domestically in the PRC while substantially all[Note] of Myshowhome Group's products were exported abroad to overseas customers;

(d) Mr. Ma confirmed that during the six months ended 30 June 2017, none of the Group's customers was a customer of the Myshowhome Group;

(e) Mr. Ma has entered into the Deed of Non-competition in favour of the Company (details of which are set out in the paragraph headed "**Compliance of Non-competition Undertakings**" below) undertaking to ensure that the total revenue of Myshowhome Group generated from PRC sales shall not exceed 5% of its revenue, and that he and his close associates will abstain from voting on matters relating to the Group or Myshowhome Group where actual or potential conflicts of interest may arise; and

(f) during the six months ended 30 June 2017, the Group did not enter into any transactions, business or other dealings with the Myshowhome Group.

Note: Some of the products of Shangpin manufactured were not exported because they did not meet the standard for export or the requirements of Shangpin's customers ("**Relevant Products**"). The Relevant Products were sold or disposed of domestically in the PRC. During each of the two years from 1 January 2014 to 31 December 2015, the total revenue generated and received by Shangpin from the domestic sale or disposal of the Relevant Products was less than RMB500,000, representing less than 2% of its total revenue in the relevant year.

Save as disclosed above, the Substantial Shareholders, Controlling Shareholders, the Directors of the Company and their respective close associates confirm that each of them does not have any interest in a business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the Group's business, and would require disclosure pursuant to Rule 11.04 of the GEM Listing Rules.

OTHER INFORMATION

COMPLIANCE OF NON-COMPETITION UNDERTAKINGS

On 19 December 2016, Mr. Ma and Sun Universal Limited ("**Sun Universal**") (being controlling shareholders of the Group) entered into a deed of non-competition ("**Deed of Non-Competition**") in favour of the Company (for itself and each of its subsidiaries), pursuant to which each of Mr. Ma and Sun Universal (the "**Covenantors**"), jointly and severally, warrants and undertakes with the Company that, immediately upon the Placing becoming unconditional, each of them shall not, and shall procure each of his/its close associates (other than the Group) shall not, whether on his/its own account or in conjunction with or on behalf of any person, firm or company and whether directly or indirectly, whether as a shareholder, director, employee, partner, agent or otherwise (other than being a director or shareholder of the Group or members of the Group), carry on or be engaged in, directly or indirectly, a business which is, or be interested or involved or engaged in or acquire or hold any rights or interest or otherwise involved in (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) any business which competes or may in any aspect compete directly or indirectly with the business or which is similar to the business currently and may from time to time be engaged by the Group (including but not limited to the production and sale of office furniture and businesses ancillary to any of the foregoing). For further details of the Deed of Non-Competition, please refer to the section headed "Relationship with Controlling Shareholders — Non-Competition Undertakings" in the Prospectus.

All the independent non-executive Directors were delegated with the authority to review on an annual basis the compliance with the Deed of Non-Competition. The Covenantors have confirmed to the Company that each of the Covenantors and his/its associates have not breached the terms of the undertakings contained in the Deed of Non-Competition. The independent non-executive Directors were not aware of any non-compliance with the Deed of Non-Competition by the Covenantors since the effective date of the Deed of Non-Competition and up to the date of this report.

OTHER INFORMATION

INTERESTS OF THE COMPLIANCE ADVISER

As notified by Convoy Capital Hong Kong Limited, the Company's compliance adviser, neither Convoy Capital Hong Kong Limited nor any of its directors, employees or close associates had any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities, if any) or otherwise in relation to the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules as at 30 June 2017.

Pursuant to the agreement entered into between Convoy Capital Hong Kong Limited and the Company on 29 December 2016, Convoy Capital Hong Kong Limited has received and will receive fees for acting as the Company's compliance adviser.

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 primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Company, nominate and monitor external auditors, review quarterly report of the Company's compliance department's findings, meet with external auditor regularly and provide advice and comments to the Directors.

The Audit Committee has reviewed the Group's unaudited condensed consolidated financial results for the six months ended 30 June 2017.

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 six months ended 30 June 2017 and up to the date of this report.

OTHER INFORMATION

NO CHANGE IN INFORMATION OF DIRECTORS

During the six months ended 30 June 2017, there was no change in the information of Directors required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period from the Listing Date to 30 June 2017, the Company did not redeem any of its shares, and neither the Company nor any of its subsidiaries have bought or sold any shares of the Company.

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 30 June 2017, 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, 14 August 2017

As at the date of this report, 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, Mr. Kwok Sui Hung and Ms. Cao Shao Mu as independent non-executive Directors.