# 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**

# 2018
## THIRD QUARTERLY REPORT

## CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

**GEM has been positioned as a market designed to accommodate small and mid-sized 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.**

**Given that companies listed on GEM are usually small and mid-sized companies, 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.**



This report, for which the directors (the "**Directors**") of Zhi Sheng Group Holdings Limited (the "**Company**") collectively and individually accept full responsibility, 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 report is accurate and complete in all material respects and not misleading or deceptive, and 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 RMB56.9 million for the nine months ended 30 September 2018, representing a decrease of approximately 17.4% as compared with the nine months ended 30 September 2017.

- The Group recorded a profit of approximately RMB3.6 million for the nine months ended 30 September 2017 and recorded a profit of approximately RMB6.4 million for the nine months ended 30 September 2018. The increase in profit was mainly attributable to the increase of gross profit margin compared with the corresponding period in 2017 and the absence of the listing expenses for the nine months ended 30 September 2018.

- The basic earnings per share for the nine months ended 30 September 2018 was approximately RMB0.96 cent, while the basic earnings per share for the nine months ended 30 September 2017 was approximately RMB0.55 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 nine months ended 30 September 2018, together with the comparative figures for the three months and the nine months ended 30 September 2017 as follows:

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS AND NINE MONTHS ENDED 30 SEPTEMBER 2018

| | | For the three months ended 30 September | | For the nine months ended 30 September | |
|---|---|---|---|---|---|
| | | **2018** | 2017 | **2018** | 2017 |
| | *Notes* | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| Revenue | 5 | **12,887** | 21,212 | **56,929** | 68,957 |
| Cost of sales | | **(8,404)** | (12,707) | **(35,885)** | (46,483) |
| Gross Profit | | **4,483** | 8,505 | **21,044** | 22,474 |
| Other income | 6 | **114** | 18 | **261** | 70 |
| Selling and distribution expenses | | **(1,452)** | (1,374) | **(3,652)** | (3,975) |
| Administrative expenses | | **(2,970)** | (2,858) | **(8,628)** | (11,266) |
| Finance costs | 7 | **–** | (160) | **–** | (1,036) |
| **Profit before income tax** | | **175** | 4,131 | **9,025** | 6,267 |
| Income tax expense | 8 | **(148)** | (1,141) | **(2,578)** | (2,666) |
| Profit for the period attributable to the owners of the Company | | **27** | 2,990 | **6,447** | 3,601 |
| Other comprehensive income/(loss) for the period: | | | | | |
| Item that may be reclassified subsequently to profit or loss: | | | | | |
| Exchange differences on translating foreign operations | | **63** | (528) | **(110)** | (1,028) |
| Total comprehensive income for the period attributable to the owners of the Company | | **90** | 2,462 | **6,337** | 2,573 |
| Earnings per share | 10 | | | | |
| — Basic and diluted (RMB cents) | | **0.004** | 0.45 | **0.96** | 0.55 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

| | Share capital *(Note a)* RMB'000 | Share premium RMB'000 | Merger reserve RMB'000 | Statutory reserve RMB'000 | Foreign exchange reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **As at 1 January 2017 (Audited)** | – | 80,702 | (11,131) | 1,872 | (8,180) | 17,439 | 80,702 |
| Profit for the period | – | – | – | – | – | 3,601 | 3,601 |
| Other comprehensive income: | | | | | | | |
| Exchange difference arising on translating of foreign operations | – | – | – | – | (1,028) | – | (1,028) |
| Total comprehensive income for the period | – | – | – | – | (1,028) | 3,601 | 2,573 |
| 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 | – | – | – | 853 | – | (853) | – |
| **As at 30 September 2017 (Unaudited)** | 5,923 | 137,989 | (11,131) | 2,725 | (9,208) | 20,187 | 146,485 |
| **As at 1 January 2018 (Audited)** | 5,923 | 137,989 | (11,131) | 3,343 | (9,013) | 25,541 | 152,652 |
| Impact on initial application of HKFRS9 | – | – | – | – | – | (162) | (162) |
| Adjusted balance at 1 January 2018 | 5,923 | 137,989 | (11,131) | 3,343 | (9,013) | 25,379 | 152,490 |
| Profit for the period | – | – | – | – | – | 6,447 | 6,447 |
| Other comprehensive income: | | | | | | | |
| Exchange difference arising on translating of foreign operations | – | – | – | – | (110) | – | (110) |
| Total comprehensive income for the period | – | – | – | – | (110) | 6,447 | 6,337 |
| Transfer to statutory reserve | – | – | – | 827 | – | (827) | – |
| **As at 30 September 2018 (Unaudited)** | 5,923 | 137,989 | (11,131) | 4,170 | (9,123) | 30,999 | 158,827 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

*Notes:*

a. The share capital of the Company as at 1 January 2017 represented the aggregate amount of the share capital of its subsidiaries and was transferred to share premium and 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 NINE MONTHS ENDED 30 SEPTEMBER 2018

## 1. CORPORATE INFORMATION

The Company was incorporated in the 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 Unit A, 17/F, Lippo Leighton Tower, 103 Leighton Road, Causeway Bay, 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 the 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 nine months ended 30 September 2017 and 2018 have been prepared in accordance with the Hong Kong Accounting Standard 34 ("**HKAS 34**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and applicable disclosure requirements of the GEM Listing Rules.

These condensed consolidated financial statements have been prepared under the same accounting policies adopted in the financial statement of 2017, except for the accounting policies related to the new standard or interpretation effective for the first time for the period beginning on or after 1 January 2018. The Group has adopted HKFRS 9 and HKFRS 15 in the preparation of financial statements. Details of any changes in accounting policies are set out in note 3.

The preparation of the condensed consolidated financial statements in conformity with HKAS 34 requires the use of certain judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. Significant judgments and estimation of ranges were made when preparing for the financial statements.

## 2. BASIS OF PREPARATION (CONTINUED)

These condensed consolidated financial statements are presented in Renminbi ("**RMB**") except when otherwise indicated. These condensed consolidated financial statements contain condensed consolidated financial statements and selected explanatory notes. These notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and business performance of the Group since the publication of 2017 annual financial statements. These condensed consolidated financial statements and notes do not include all of the information required for a complete set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (the "**HKFRSs**") and should be read in conjunction with the 2017 consolidated financial statements.

The adoption of these new and revised HKFRSs (except for HKFRS 9 and HKFRS 15) has no material impact on these 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.

## 3. CHANGES IN HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new or amended HKFRSs which came into effect for the first time for the current accounting period of the Group:

- HKFRS 9 Financial Instruments
- HKFRS 15 Revenue from Contracts with Customers
- HK (IFRIC) – Interpretation 22 Foreign Currency Transactions and Advance Consideration
- Amendments to HKFRS 2 Classification and Measurement of Share-based Payment Transaction
- Amendments to HKFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Amendments to HKAS 28 included in Annual Improvements to HKFRSs 2014–2016 Cycle, Investments in Associates and Joint Ventures
- Amendments to HKAS 40 Transfers of Investment Property
- Amendments to HKFRS 1 included in Annual Improvements to HKFRSs 2014–2016 Cycle, First-time Adoption of Hong Kong Financial Reporting Standards

## 3. CHANGES IN HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

The impact of the adoption of HKFRS 9 Financial Instruments (see note 3(A) below) and HKFRS 15 Revenue from Contracts with Customers (see note 3(B) below) have been summarised below. The other new or amended HKFRSs that are effective from 1 January 2018 did not have any material impact on the Group's accounting policies.

### A. HKFRS 9 Financial Instruments ("HKFRS 9")

#### *(i) Classification and measurement of financial instruments*

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment; and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the condensed consolidated interim financial statements.

The following tables summarised the impact, net of tax, of transition to HKFRS 9 on the opening balance of retained earnings as of 1 January 2018 as follows (increase/(decrease)):

| | RMB'000 |
|---|---|
| *Retained earnings* | |
| Retained earnings as at 31 December 2017 | 25,541 |
| Increase in expected credit losses ("**ECLs**") in trade and other receivables (note 3A(ii) below) | (162) |
| Restated retained earnings as at 1 January 2018 | 25,379 |

HKFRS 9 basically retains the existing requirements in HKAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

## 3. CHANGES IN HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

### A. HKFRS 9 Financial Instruments (Continued)

#### *(i) Classification and measurement of financial instruments (Continued)*

The following table summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

| Financial assets | Original classification under HKAS 39 | New classification under HKFRS 9 | Carrying amount as at 1 January 2018 under HKAS 39 RMB'000 | Carrying amount as at 1 January 2018 under HKFRS 9 RMB'000 |
|---|---|---|---|---|
| Trade receivables | Loans and receivables (note 3A(ii)(a)) | Amortised cost | 30,742 | 30,625 |
| Other receivables, deposits and prepayments | Loans and receivables (note 3A(ii)(b)) | Amortised cost | 25,727 | 25,682 |
| Cash and cash equivalents | Loans and receivables | Amortised cost | 36,428 | 36,428 |

#### *(ii) Impairment of financial assets*

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "ECL model". HKFRS 9 requires the Group to recognise ECL for trade receivables, financial assets at amortised costs, contract assets and debt investment at fair value through other comprehensive income ("**FVOCI**") earlier than HKAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

## 3. CHANGES IN HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

### A. HKFRS 9 Financial Instruments (Continued)

#### *(ii) Impairment of financial assets (Continued)*

The Group has elected to measure loss allowances for trade and other receivables and contract assets using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

*Presentation of ECLs*

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt investment at FVOCI, the loss allowance is recognised in other comprehensive income ("**OCI**"), instead of reducing the carrying amount of the assets.

## 3. CHANGES IN HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

### A. HKFRS 9 Financial Instruments (Continued)

#### *(ii) Impairment of financial assets (Continued)*

*Impact of the ECL model*

(a) Impairment of trade receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which adopts a life time ECLs for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance as at 1 January 2018 was determined as follows for trade receivables as follows:

| | Within the credit period | Less than 1 month past due | 1 to 3 months past due | More than 3 months but less than 6 months past due | More than 6 months past due | Total |
|---|---|---|---|---|---|---|
| Expected credit loss rate (%) | 0.0% | 0.1% | 0.5% | 2.0% | 5.0% | 0.4% |
| Gross carrying amount (RMB'000) | 21,492 | 3,809 | 731 | 4,210 | 500 | 30,742 |
| Loss allowance (RMB'000) | 0 | 4 | 4 | 84 | 25 | 117 |

The increase in loss allowance for trade receivables upon the transition to HKFRS 9 as of 1 January 2018 were RMB117,000. The loss allowances further increased for RMB193,000 for trade receivables during the nine months ended 30 September 2018.

(b) Impairment of other receivables

Other financial assets at amortised cost of the Group includes other receivables. Applying the ECL model resulted in the recognition of ECL of RMB45,000 on 1 January 2018 and a further ECL of RMB8,000 for the nine months ended 30 September 2018.

## 3. CHANGES IN HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

### A. HKFRS 9 Financial Instruments (Continued)

#### *(iii) Hedge accounting*

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

#### *(iv) Transition*

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This means that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the "**DIA**"):

- The determination of the business model within which a financial asset is held;

- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and

- The designation of certain investments in equity investments not held for trading as at FVOCI.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

## 3. CHANGES IN HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

### B. HKFRS 15 Revenue from Contracts with Customers

The impact on the consolidated condensed statement of profit or loss and OCI (increase/(decrease)) for the nine months ended 30 September 2018:

| | RMB'000 |
|---|---|
| Revenue (note 3B(a)) | (178) |
| Cost of sales (note 3B(a)) | – |
| Other income | 178 |
| Profit before tax | – |
| Income tax expense | – |
| Profit from continuing operations | – |
| Profit for the period | – |
| Total comprehensive income for the period | – |

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below:

| Note | Product/service | Nature of the goods or services, satisfaction of performance obligations and payment terms | Nature of change in accounting policy and impact on 1 January 2018 |
|---|---|---|---|
| (a) | Sales of office furniture products | Customers obtain control of the office furniture products when the goods are delivered and have been accepted. Revenue is thus recognised upon when the customers accepted the office furniture products. There is generally only one performance obligation. | No impact |

## 4. USE OF JUDGEMENTS AND ESTIMATES

In preparing these condensed consolidated financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2017 annual financial statements, except for new significant judgements and key sources of estimation uncertainty related to the application of HKFRS 9 and HKFRS 15 as described in note 3.

## 5. REVENUE

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

| | For the three months ended 30 September | | For the nine months ended 30 September | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| Revenue | **12,887** | 21,212 | **56,929** | 68,957 |

*Note:* The Group has initially applied HKFRS 15 using cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18.

## 6. OTHER INCOME

| | For the three months ended 30 September | | For the nine months ended 30 September | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| Other income | **101** | – | **178** | – |
| Interest income | **13** | 18 | **45** | 70 |
| Grants income | **–** | – | **38** | – |
| | **114** | 18 | **261** | 70 |

## 7. FINANCE COSTS

| | For the three months ended 30 September | | For the nine months ended 30 September | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| Interest on bank and other borrowings | **–** | 160 | **–** | 1,036 |

## 8. INCOME TAX EXPENSE

| | For the three months ended 30 September | | For the nine months ended 30 September | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| Current tax | | | | |
| — Tax for the period | **208** | 1,201 | **2,757** | 2,845 |
| Deferred tax | | | | |
| — Current period | **(60)** | (60) | **(179)** | (179) |
| | **148** | 1,141 | **2,578** | 2,666 |

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the 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 nine months ended 30 September 2018 and 2017.

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

## 9. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2018 (the corresponding period in 2017: nil). No shareholder has agreed to waive dividends.

## 10. EARNINGS PER SHARE

The earnings 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 670,000,000 shares of the Company in issue for the three months and the nine months ended 30 September 2018 and 2017.

| | For the three months ended 30 September | | For the nine months ended 30 September | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| Earnings: | | | | |
| The profit used to calculate the basic earnings per share for three months and nine months | **27** | 2,990 | **6,447** | 3,601 |
| | **'000 shares** | '000 shares | **'000 shares** | '000 shares |
| Number of shares used to calculate the basic earnings per share | **670,000** | 670,000 | **670,000** | 670,000 |

*Note:* The calculation of the basic earnings per share attributable to the owners of the Company is based on the profit for the nine months ended 30 September 2018 of approximately RMB6.4 million (for the nine months ended 30 September 2017: approximately RMB3.6 million), and on the weighted average number of 670,000,000 shares of the Company in issue as of 30 September 2018 (30 September 2017: 670,000,000 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 nine months ended 30 September 2018 and 2017. 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group is principally engaged in the manufacture and sale of office furniture products. The Group sells its products to the domestic PRC market with a large proportion of its sales derived from Sichuan, Chongqing, Tibet Autonomous Region and Yunnan. The Group sells its products to the customers mainly through two sales channels, namely participating in tenders and direct sales. The Group's sales offices, namely Sichuan Greenland Furniture Co., Limited ("**Sichuan Greenland**") and a branch office in Chongqing ("**Chongqing Branch Office**"), are located in Chengdu and Chongqing, respectively.

For the first nine months of 2018, despite sustained development in the domestic PRC economy and a year-on-year increase in GDP by 6.7% in the first three quarters, the year-on-year increase in GDP of the third quarter was only 6.5%, which obviously slowed down. With the intensification and escalation of the Sino-US trade war, the domestic PRC economy faced greater pressures and uncertainties. Exporters of office furniture are bound to pay more attention to the domestic PRC market, thus intensifying competition in the office furniture industry. In recent years, the national PRC government department has stipulated "No new construction of office buildings within the next five years, downsizing in office space, and new office furniture allocation standards to extend office furniture useful life", resulting in the reduction of government procurement of office furniture. In the southwestern region where the Group has traditional sales advantages, the demand for office furniture at financial institution outlets has decreased significantly as compared with previous years. The above factors have presented greater challenge to the Group's development.

For the nine months ended 30 September 2018, the Group realized revenue of approximately RMB56.9 million, representing a decrease of 17.4% as compared with the nine months ended 30 September 2017. It is expected that our operations will face significant challenges and pressures in the coming year. The Group will secure its market share in the southwestern region through Sichuan Greenland, and strengthen the development in the provinces and municipalities such as Guangxi, Jiangsu, Beijing, Guangdong and northwestern regions of the PRC, with a view to extend its geographical coverage and acquire new customers in such areas. It is believed that the Group will gradually achieve results through the efforts of the Group and the sales strategy previously adopted.

Looking forward, the Group will implement the plans formulated before its listing based on the actual operational conditions in a steady manner, thereby achieving the business objectives set by the Group and generating benefits.

## FINANCIAL REVIEW

### Revenue

For the nine months ended 30 September 2018, the Group generated revenue of approximately RMB56.9 million, representing a decrease of approximately 17.4% as compared with the nine months ended 30 September 2017.

The revenue of Sichuan Greenland was approximately RMB50.5 million for the nine months ended 30 September 2018, representing a decrease of approximately 16.5% as compared with the nine months ended 30 September 2017. Such decrease is mainly due to:

(i) A decrease by approximately RMB13.1 million or 27.5% of the revenue derived from the traditional sales provinces and regions of Sichuan, Yunnan, Guizhou, Chongqing and Tibet Autonomous Region as compared with the corresponding period of 2017, which in turn was mainly attributable to significant decrease in the orders from major customers in the above regions and the decrease in revenue from financial institutional customers compared with the corresponding period in 2017. Our sales strategies achieved a positive outcome in Sichuan and Chongqing but the sales volume from new customers in such area was comparatively low, the revenue contributed from which could not offset the decrease in revenue from the above provinces and regions;

(ii) A significant decrease in revenue from Guangdong and Jiangsu, in particular: a decrease by approximately RMB7.5 million for the nine months ended 30 September 2018 compared with the same period in 2017, or 82.2% of the revenue from Guangdong; a decrease by approximately RMB4.0 million for the nine months ended 30 September 2018 compared with the same period in 2017, or 68.6% of the revenue from Jiangsu. The decrease in revenue in the above-mentioned provinces were mainly due to non-sustainability (or the one-off nature) of the sales orders from tender customers, and the failure of the revenue from new customers in the above provinces and regions in offsetting the reduced revenue from the existing customers; and

(iii) As a result of the positive outcome of our sales strategies in Guangxi, for the nine months ended 30 September 2018, the revenue from Guangxi increased by approximately RMB10.8 million as compared with the same period in 2017, which has offset the decline to a certain extent in revenue from other provinces and regions. The increase in revenue from Guangxi was mainly attributable to two new customers from Fangchenggang. Besides, sales in Beijing, Shanghai, Henan and Qinghai also achieved breakthroughs.

The revenue of Chongqing Branch Office for the nine months ended 30 September 2018 was approximately RMB6.4 million, representing a decrease of approximately 23.8% as compared with the nine months ended 30 September 2017. This was mainly because a private enterprise in Qinghai contributed revenue of approximately RMB1.5 million during the nine months ended 30 September 2017 while we did not have a similar client in the corresponding period in 2018.

## 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 nine months ended 30 September 2018, the Group's cost of sales amounted to approximately RMB35.9 million, representing a decrease of approximately 22.8% from approximately RMB46.5 million for the nine months ended 30 September 2017. Such decrease was mainly due to (i) the decrease in the Group's sales revenue by approximately 17.4%; (ii) the decrease in the cost of raw material by approximately RMB9.8 million; (iii) the decrease in salary of production staff by approximately RMB0.1 million, and (iv) the decrease in other production expenses by approximately RMB0.7 million.

### Gross profit

Gross profit decreased from approximately RMB22.5 million for the nine months ended 30 September 2017 to approximately RMB21.0 million for the nine months ended 30 September 2018. Gross profit margin increased from approximately 32.6% for the nine months ended 30 September 2017 to approximately 37.0% for the nine months ended 30 September 2018. The decrease in gross profit was mainly attributable to the fact that although the revenue of the Group decreased by approximately RMB12.1 million for the nine months ended 30 September 2018 as compared with the corresponding period in 2017, the cost of sales decreased by approximately RMB10.6 million for the nine months ended 30 September 2018 as compared with the same period in 2017, resulting in a decrease in the gross profit of RMB1.5 million all together.

### Administrative and other expenses

For the nine months ended 30 September 2018, the Group's administrative expenses amounted to approximately RMB8.6 million, representing a decrease of approximately 23.4% from approximately RMB11.3 million for the nine months ended 30 September 2017. Such decrease was mainly attributable to the absence of the listing expenses for the nine months ended 30 September 2018.

### Selling and distribution expenses

For the nine months ended 30 September 2018, the selling and distribution expenses of the Group amounted to approximately RMB3.7 million, representing a decrease of approximately 8.1% from approximately RMB4.0 million for the nine months ended 30 September 2017. Such decrease was mainly attributable to the decrease in advertising expenses and transportation expenses as compared with the corresponding period in 2017.

### Income tax expense

For the nine months ended 30 September 2018, the Group's income tax expense amounted to approximately RMB2.6 million, representing a decrease of approximately 3.3% from approximately RMB2.7 million for the nine months ended 30 September 2017. Such decrease was mainly attributable to a decrease in taxable profit of the Group generated in the relevant period.

## PLEDGE OF ASSETS

For the nine months ended 30 September 2018, the Group had no asset pledged.

## DISCLOSURE OF INTERESTS

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

As at 30 September 2018, 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 and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**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 as referred to in section 352 of the SFO pursuant to such section, 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 ordinary shares held/interested | Percentage of shareholding |
|---|---|---|---|
| Mr. Yi Cong | Interest of spouse *(Note 1)* | 116,580,000 (Long position) | 17.40% |

*Notes:*

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

Save as disclosed above, as at 30 September 2018, 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 by the Company pursuant to section 352 of the SFO, or (iii) to be notified to the Company and the Stock Exchange pursuant to Rules 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 at 30 September 2018, 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 ordinary shares held/interested | Percentage of shareholding |
|---|---|---|---|
| Sun Universal Limited | Beneficial owner *(Note 1)* | 245,300,400 (Long position) | 36.62% |
| Mr. Ma Gary Ming Fai ("**Mr. Ma**") | Interest in a controlled corporation *(Note 1)* | 245,300,400 (Long position) | 36.62% |
| Ms. Hung Fung King Margaret | Interest of spouse *(Note 2)* | 245,300,400 (Long position) | 36.62% |
| Brilliant Talent Global Limited | Beneficial owner *(Note 3)* | 116,580,000 (Long position) | 17.40% |
| Ms. Zhang Gui Hong | Interest in a controlled corporation *(Note 3)* | 116,580,000 (Long position) | 17.40% |

# OTHER INFORMATION

*Notes:*

1. The entire issued share capital of Sun Universal Limited is legally and beneficially owned by Mr. Ma. Accordingly, Mr. Ma is deemed to be interested in the shares held by Sun Universal Limited for the purpose of Part XV of the SFO.

2. 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.

3. 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 the shares held by Brilliant Talent Global Limited for the purpose of Part XV of the SFO.

Save as disclosed above, as at 30 September 2018, the Company had not been notified by any person who had interests or short positions in the shares, underlying shares or debentures of the Company which required to be recorded in the register kept by the Company 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.

## 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 there was no share option outstanding as at 30 September 2018.

## DEED OF NON-COMPETITION

A deed of non-competition (the "**Deed of Non-Competition**") dated 19 December 2016 was entered into by Mr. Ma 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-Competition Undertakings".

# OTHER INFORMATION

## POTENTIAL COMPETING INTERESTS

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. (東莞市尚品傢具有限公司) ("**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 believes that Myshowhome International and Myshowhome HK are both investment holding companies. 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 any business apart from Group's business which competes or is likely to compete, directly or indirectly, with the Group's business which would require disclosure pursuant to Rule 11.04 of the GEM Listing Rules as at the Listing Date up to the date of this report.

## INTERESTS OF THE COMPLIANCE ADVISER

As the Company's original compliance adviser, Convoy Capital Hong Kong Limited has resigned, on 5 March 2018, the Company appointed Octal Capital Limited as the new compliance adviser of the Company. As notified by Convoy Capital Hong Kong Limited and Octal Capital Limited, neither they nor any of their 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 September 2018 (excluding the compliance adviser agreement entered into between the Company and Convoy Capital Hong Kong Limited on 29 December 2016, and the compliance adviser agreement entered into between the Company and Octal Capital Limited on 5 March 2018 (the "**Compliance Adviser Agreements**")).

# OTHER INFORMATION

Pursuant to the Compliance Adviser Agreements above, Convoy Capital Hong Kong Limited and Octal Capital Limited have received and will receive fees for acting as the Company's compliance adviser.

## AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**") on 19 December 2016 with written terms of reference. 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 condensed consolidated financial results for the nine months ended 30 September 2018.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period from the Listing Date to 30 September 2018, 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 September 2018, 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, 9 November 2018

*As at the date of this report, the Board comprises Mr. Yi Cong and Mr. Liang Xing Jun as executive Directors; Mr. Luo Guoqiang as non-executive Director; and Mr. Chan Wing Kit, Ms. Cao Shao Mu and Mr. Kwok Sui Hung as independent non-executive Directors.*