

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)

ANNOUNCEMENT OF FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2019

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This announcement, for which the directors (the "**Directors**") of Zhi Sheng Group Holdings Limited (the "**Company**") collectively and individually accept full 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 announcement 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 announcement misleading.

FINANCIAL RESULTS

SUMMARY

- The Group recorded revenue of approximately RMB7.7 million for the three months ended 31 March 2019, representing a decrease of approximately 68.0% as compared with the three months ended 31 March 2018.
- The Group recorded a loss of approximately RMB1.5 million for the three months ended 31 March 2019 as compared with a profit of approximately RMB4.3 million for the three months ended 31 March 2018. The loss was mainly attributable to the decrease in sales of approximately 68.0% for the three months ended 31 March 2019 as compared with the corresponding period in 2018, while sales expenses and administrative expenses increased as compared with the corresponding period in 2018.
- The basic loss per share for the three months ended 31 March 2019 was approximately RMB0.22 cent, while the basic earnings per share for the three months ended 31 March 2018 was approximately RMB0.65 cent.

FINANCIAL RESULTS

The board of Directors (the “**Board**”) of the Company is pleased to present the unaudited consolidated results of the Group for the three months ended 31 March 2019, together with the comparative unaudited figures for the corresponding period in 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED 31 MARCH 2019

	Notes	For the three months ended 31 March	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue	3	7,741	24,163
Cost of sales		(5,315)	(14,795)
Gross profit		2,426	9,368
Other income		71	61
Selling and distribution expenses		(1,269)	(1,177)
Administrative and other expenses		(2,762)	(2,362)
Finance costs		–	–
Profit before income tax		(1,534)	5,890
Income tax credit/(expense)	4	59	(1,565)
Profit/(loss) for the period attributable to the owners of the Company		(1,475)	4,325
Other comprehensive income/(loss) for the period:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		18	(189)
Total comprehensive income/(loss) for the period attributable to the owners of the Company		(1,457)	4,136
Earnings/(loss) per share			
— Basic and diluted (RMB cents)	6	(0.22)	0.65

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 31 MARCH 2019

	Share capital	Share premium	Other reserve	Statutory reserve	Foreign Exchange reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2018 (Audited)	5,923	137,989	(11,131)	3,343	(9,013)	25,379	152,490
Profit for the period	-	-	-	-	-	4,325	4,325
Other comprehensive income:							
Exchange difference arising on translating of foreign operations	-	-	-	-	(189)	-	(189)
Total comprehensive income for the period	-	-	-	-	(189)	4,325	4,136
Transfer to statutory reserve	-	-	-	487	-	(487)	-
As at 31 March 2018 (Unaudited)	5,923	137,989	(11,131)	3,830	(9,202)	29,217	156,626
As at 1 January 2019 (Audited)	5,923	137,989	(11,131)	4,158	(8,971)	29,543	157,511
Profit/(loss) for the period	-	-	-	-	-	(1,475)	(1,475)
Other comprehensive income:							
Exchange difference arising on translating of foreign operations	-	-	-	-	18	-	18
Total comprehensive income/(loss) for the period	-	-	-	-	18	(1,475)	(1,457)
As at 31 March 2019 (Unaudited)	5,923	137,989	(11,131)	4,158	(8,953)	28,068	156,054

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2019

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 People's 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 GEM on 20 January 2017.

2. BASIS OF PREPARATION

The Group's unaudited condensed consolidated financial statements for the three months ended 31 March 2018 and 2019 have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and disclosure requirements of the GEM.

Other than the adoption of the new and revised HKFRSs during the accounting period from 1 January 2019, 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 2018.

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 THREE MONTHS ENDED 31 MARCH 2019

3. REVENUE

The Group applied HKFRS 15 in recognizing revenue and sales of office furniture products since 1 January 2018. Customers obtain control of the office furniture products when the goods are delivered to, installed and have been accepted by customers. Revenue is thus recognised at the point in time when the customers accepted the office furniture products. There is generally only one performance obligation and the considerations include no variable amount. Invoices are usually payable within 30 days or up to 180 days. When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception.

Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts. An analysis of the Group's revenue is as follows:

	For the three months ended 31 March	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sale of office furniture products	7,741	24,163

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2019

4. INCOME TAX CREDIT/(EXPENSE)

	For the three months ended 31 March	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Current tax		
— Tax for the period	–	(1,624)
Deferred tax		
— Current period from January to March	59	59
	59	(1,565)

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 three months ended 31 March 2019 and 2018.

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.

5. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2019 (2018: Nil). No shareholder has agreed to waive dividends.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2019

6. EARNINGS/(LOSS) PER SHARE

The basic earnings/(loss) per share attributable to the owners of the Company are calculated by the weighted average number of 670,000,000 shares and 670,000,000 ordinary shares in issue for the three months ended 31 March 2019 and 2018.

	For the three months ended 31 March	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The profit/(loss) used to calculate the basic earnings/(loss) per share for three months	(1,475)	4,325
	'000 shares	'000 shares
Number of shares: Number of shares used to calculate the basic earnings/(loss) per share	670,000	670,000

Note: The calculation of the basic loss per share attributable to the owners of the Company is based on the loss for the three months ended 31 March 2019 of approximately RMB1.475 million (for the three months ended 31 March 2018: earnings of approximately RMB4.325 million), and on the basis of 670,000,000 shares of the Company in issue for the three months ended 31 March 2019 (31 March 2018: 670,000,000 shares in issue). There were no potential ordinary shares in issue for the three months ended 31 March 2019 and 2018.

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the manufacture and sale of office furniture products in the PRC. The Group sells its products to the domestic PRC market with a large proportion of its sales derived from Sichuan province, Chongqing city and Guizhou province. The Group sells its products to its customers mainly through two major sales channels, namely participating in tenders and direct sales. The Group operates a sales office, Sichuan Greenland Furniture Co., Limited ("**Sichuan Greenland**"), in Chengdu city and a branch office, Chongqing Branch Office ("**Chongqing Branch Office**") of Sichuan Greenland, in Chongqing city.

During the first three months of 2019, China's macro economy was facing further downward pressure. The "China-US trade war", despite developing towards favourable direction, is not over yet. China's domestic economy is facing great pressure and uncertainty. 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 configuration standards to extend office furniture useful life", resulting in the reduction of government procurement of office furniture and corresponding extension of allocation cycle. Moreover, the increasingly strict environmental regulation of governments at all levels in China to a certain extent increased the pressure on product cost. The above factors have presented greater challenge to the Group's development.

Affected by the above factors, the intensified domestic market competition in China and the decrease in overall demand in China, revenue achieved by the Group in the first three months of 2019 was significantly lower than that in the corresponding period of 2018, and the Group expects to face major challenges and pressures in its operations in the remainder of 2019. For the three months ended 31 March 2019, the Group recorded a revenue of approximately RMB7.7 million, representing a decrease of approximately RMB16.5 million or approximately 68.0% as compared with the three months ended 31 March 2018.

The significant decrease in revenue is mainly due to the non-sustainable (or one-off) nature of the sales orders of bidding customers from Guangxi Autonomous Region, Guangdong province and Jiangsu province. There were major customers in all the above provinces during the first quarter of 2018, but that did not carry over into the corresponding period of 2019 and thus resulted in a correspondingly significant decline in revenue. Meanwhile, the revenue of the five southwestern provinces where the Group has traditional sales advantages (i.e. Sichuan province, Chongqing city, Tibet Autonomous Region, Guizhou province, Yunnan province) also declined year-on-year by 11.6%.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group recorded a loss of approximately RMB1.5 million for the three months ended 31 March 2019 as compared with a profit of approximately RMB4.3 million for the three months ended 31 March 2018. The loss was mainly attributable to the decrease of approximately 68.0% in sales for the three months ended 31 March 2019 as compared with the corresponding period in 2018, resulting in decrease of approximately RMB7.0 million in total gross profit, while sales expenses and administrative expenses increased as compared with the corresponding period in 2018.

In order to gradually bring the Group's sales out of the trough and to resume growth, on the one hand, the Group continues to adhere to the market share of traditional advantageous provinces such as Sichuan province, Yunnan province, Guizhou province, Chongqing city and Tibet Autonomous Region, to actively participate in various office furniture bidding businesses in the five provinces of Southwest China, and to improve the success rate in bidding by appropriately reducing the gross profit of projects. Meanwhile, the Company gradually extends the technological research and development inputs on innovative products year by year, to strengthen the competitiveness in tendering for the financial system network of the Company and to extend the market share. On the other hand, the Group also actively seeks new customers from markets outside the five provinces of Southwestern China and strives to expand market share.

With the further slowdown of the overall economy in the future and the significant reduction in demand from large customers due to the allocation cycle, the sales situation in the five provinces of Southwest China will become increasingly severe, and the competition for office furniture bidding will become more and more intense. The expansion of markets in other provinces and regions will also face many difficulties. Therefore, the Group will further strictly control various cost expenses and reduce unnecessary energy consumption, striving to achieve the profit targets set by the Group. The Group is committed to enhancing its market competitiveness, creating sustainable returns and maximizing wealth for shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the three months ended 31 March 2019, the Group achieved a revenue of approximately RMB7.7 million, representing a decrease of approximately RMB16.5 million or approximately 68.0% as compared with the three months ended 31 March 2018.

In particular, the revenue derived from Sichuan Greenland was approximately RMB6.6 million, representing a decrease of approximately RMB15.8 million or approximately 70.5% as compared with the three months ended 31 March 2018.

- (i) Revenue attributable to our historically strong sales provinces and autonomous regions such as Sichuan province, Yunnan province, Guizhou province, Chongqing city, Tibet Autonomous Region decreased by approximately RMB0.8 million or 11.6% as compared with the corresponding period in 2018. This is mainly due to orders from large customers having decreased significantly as compared with the corresponding period in 2018. The average sales volume derived from new customers is relatively low, so the realized revenue did not make up for the decline in revenue of the above provinces.
- (ii) There were two customers in Fangchenggang, Guangxi Autonomous Region during the first quarter of 2018, contributing to revenue of approximately 10.8 million, while there was no similar large customers in the corresponding period in 2019. This is the main reason behind the significant year-on-year decrease in revenue of Sichuan Greenland.
- (iii) The revenue attributable to Guangdong province and Jiangsu province during the first quarter of 2018 was approximately RMB1.6 million and RMB1.8 million respectively, while there was temporarily no sales for the corresponding period in 2019. Due to the non-sustainable (or one-off) nature of the sales orders of bidding customers, the seasonal fluctuation of revenue increased. Moreover, the sales business in other provinces was not satisfactory.

The revenue from Chongqing Branch Office was approximately RMB1.1 million for the three months ended 31 March 2019, representing a decrease of approximately RMB0.6 million or approximately 34.6% as compared with the three months ended 31 March 2018. Such decrease was primarily due to two large customers contributing to revenues of approximately RMB0.7 million in the three months ended 31 March 2018 while the sales volume derived from customers in general was lower for the three months ended 31 March 2019. The realised revenue from the additional customers cannot cover the decrease in revenue from the decrease in existing customers.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of sales

Cost of sales mainly comprised (i) raw materials used for production; (ii) cost of goods purchased; (iii) labour costs; and (iv) production overheads such as depreciation. For the three months ended 31 March 2019, the Group's cost of sales amounted to approximately RMB5.3 million, representing a decrease of approximately 64.1% from approximately RMB14.8 million for the three months ended 31 March 2018. Such decrease was mainly due to (i) the Group's sales decreasing by approximately RMB16.5 million; (ii) a decrease in the cost of raw materials used and cost of goods purchased of approximately RMB8.3 million; (iii) a decrease in salary of production staff of approximately RMB0.3 million; and (iv) a decrease in other production expenses of approximately RMB0.9 million.

Gross profit

Gross profit decreased from approximately RMB9.4 million for the three months ended 31 March 2018 to approximately RMB2.4 million for the three months ended 31 March 2019. The gross profit margin decreased from approximately 38.8% for the three months ended 31 March 2018 to approximately 31.3% for the three months ended 31 March 2019. Such decreases were mainly attributable to the decrease in sales revenue exceeding the decrease in cost of sales. The sales revenue of the Group for the three months ended 31 March 2019 decreased year-on-year by approximately RMB16.5 million as compared with the corresponding period in 2018, while the cost of sales only decreased by approximately RMB9.5 million, resulting in a significant decrease in total gross profit.

Other income

For the three months ended 31 March 2019, the Group's other income amounted to approximately RMB71,000, representing an increase of approximately 16.4% from approximately RMB61,000 for the three months ended 31 March 2018. Such increase was mainly attributable to the increase in interest income arising from unwinding of discounted quality assurance deposits of the Group for the three months ended 31 March 2019 as compared with the corresponding period in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative and other expenses

For the three months ended 31 March 2019, the Group's administrative and other expenses amounted to approximately RMB2.8 million, representing an increase of approximately 16.9% from approximately RMB2.4 million for the three months ended 31 March 2018. Such increase was mainly attributable to the increase in the research and development expenses of innovative products and the office expense for the three months ended 31 March 2019 as compared with the corresponding period in 2018.

Selling and distribution expenses

For the three months ended 31 March 2019, the Group's selling and distribution expenses amounted to approximately RMB1.3 million, representing an increase of approximately 7.8% from RMB1.2 million for the three months ended 31 March 2018. Such increase was mainly attributable to the increase in office expense and minor decoration expense.

Income tax expense

For the three months ended 31 March 2019, the Group's income tax credit amounted to approximately RMB0.06 million, while the income tax expense for the three months ended 31 March 2018 amounted to approximately RMB1.6 million. Such decrease was mainly because the Group generated a loss during the three months ended 31 March 2019 and was not subject to income tax.

PLEDGE OF ASSETS

As of 31 March 2019, the Group had no assets pledged.

OTHER INFORMATION

SHARE OPTION SCHEME

The shareholders of the Company approved and adopted the share option scheme of the Company (the “**Share Option Scheme**”) by way of written resolutions on 19 December 2016. No share option has been granted since the adoption of the Share Option Scheme and there was no share option outstanding as at 31 March 2019.

DEED OF NON-COMPETITION

A deed of non-competition (the “**Deed of Non-Competition**”) dated 19 December 2016 was entered into by Mr. Ma Gary Ming Fai (“Mr. Ma”) and Sun Universal Limited (“Sun Universal”) (being controlling shareholders of the Company) in favour of the Company (for the Company and each of its subsidiaries). The details of the Deed of Non-Competition have been disclosed in the section headed “Relationship with Controlling Shareholders — Non-Competition Undertakings” of the prospectus of the Company dated 30 December 2016 (the “**Prospectus**”).

POTENTIAL COMPETING INTERESTS

As at 31 March 2019, Mr. Ma remains the sole shareholder of Myshowhome International Limited (“**Myshowhome International**”, together with its subsidiaries, the “**Myshowhome Group**”). Myshowhome International holds 100% interest in Myshowhome (Hong Kong) Limited (“**Myshowhome HK**”), which in turn holds 100% interest in Dongguan Shangpin Furniture Co., Ltd. (東莞市尚品家具有限公司) (“**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. Because the Group’s focus is on manufacturing and sales of office furniture while Myshowhome Group’s focus is on sofas and sofa-beds, Myshowhome Group may potentially compete with the Group. For further details, please refer to the section headed “Relationship with controlling shareholders” of the Prospectus.

OTHER INFORMATION

Save as disclosed above, none of the controlling shareholders, the Directors and their respective close associates (as defined under the GEM Listing Rules) has any interest in a business apart from Group's business which competes or is likely to compete, directly or indirectly, with the Group's business, and would require disclosure pursuant to Rule 11.04 of the GEM Listing Rules since 20 January 2017 (the "**Listing Date**") and up to the date of this announcement.

Mr. Ma and Sun Universal have all confirmed to the Group of his/its compliance with the Deed of Non-Competition from the Listing Date and up to the date of this announcement. The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied with by each of Mr. Ma and Sun Universal and duly enforced since the Listing Date and up to the date of this announcement.

AUDIT COMMITTEE

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

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

The Audit Committee has reviewed the Group's unaudited consolidated financial statements for the three months ended 31 March 2019. The Audit Committee is of the view that the unaudited consolidated results are in compliance with the applicable accounting standards, the GEM Listing Rules and other legal requirements, and that the sufficient disclosure was made.

OTHER INFORMATION

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted Rules 5.48 to 5.68 of the GEM Listing Rules as its own code of conduct ("**Code of Conduct**") regarding securities transactions by the Directors. The Company has confirmed, having made specific enquiry of the Directors, that all the Directors have complied with the Code of Conduct throughout the three months ended 31 March 2019 and up to the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CORPORATE GOVERNANCE PRACTICES

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

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

Hong Kong, 10 May 2019

As at the date of this announcement, 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.

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