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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 the companies listed on GEM are generally 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

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 of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company and its subsidiaries. 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.

ANNUAL RESULTS

The board of Directors (the "Board") is pleased to present the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2019, together with the comparative figures for the preceding financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	5	**48,610**	74,866
Cost of sales		**(37,897)**	(48,814)
Gross profit		**10,713**	26,052
Other income	6	**905**	1,423
Selling and distribution expenses		**(8,645)**	(5,095)
Administrative and other expenses		**(20,387)**	(16,193)
Finance costs	7	**(130)**	–
(Loss)/profit before income tax	8	**(17,544)**	6,187
Income tax credit/(expense)	9	**1,073**	(1,208)
(Loss)/profit for the year attributable to the owners of the Company		**(16,471)**	4,979
Other comprehensive income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**392**	42
Total comprehensive (expense)/income for the year attributable to the owners of the Company		**(16,079)**	5,021
(Loss)/earnings per share			
— Basic and diluted (RMB cents)	11	**(2.23)**	0.74

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**51,570**	55,104
Right-of-use assets		**15,993**	–
Payments for leasehold land held for own use under operating leases		**–**	14,206
Total non-current assets		**67,563**	69,310
Current assets			
Payments for leasehold land held for own use under operating leases		**–**	230
Financial assets at fair value through profit or loss		**4,115**	–
Inventories		**21,611**	17,632
Contract assets		**3,432**	4,766
Trade and other receivables	*12*	**44,917**	48,949
Cash and cash equivalents		**49,079**	37,438
Total current assets		**123,154**	109,015
Total assets		**190,717**	178,325
Current liabilities			
Contract liabilities		**3,810**	1,074
Trade and other payables	*13*	**11,279**	12,891
Lease liabilities		**901**	–
Tax payable		**–**	1,391
Total current liabilities		**15,990**	15,356
Net current assets		**107,164**	93,659
Total assets less current liabilities		**174,727**	162,969

	Notes	**2019** *RMB'000*	2018 *RMB'000*
Non-current liabilities			
Lease liabilities		**1,131**	–
Deferred tax liabilities		**5,219**	5,458
Total non-current liabilities		**6,350**	5,458
Total liabilities		**22,340**	20,814
NET ASSETS		**168,377**	157,511
EQUITY			
Equity attributable to owners of the Company			
Share capital	*14*	**7,100**	5,923
Reserves	*15*	**161,277**	151,588
TOTAL EQUITY		**168,377**	157,511

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 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	5,923	137,989	(11,131)	3,343	(9,013)	25,379	152,490
Profit for the year	–	–	–	–	–	4,979	4,979
Other comprehensive income:							
Exchange difference arising on translating of foreign operations	–	–	–	–	42	–	42
Total comprehensive income for the year	–	–	–	–	42	4,979	5,021
Transfer to statutory reserve	–	–	–	815	–	(815)	–
As at 31 December 2018	**5,923**	**137,989**	**(11,131)**	**4,158**	**(8,971)**	**29,543**	**157,511**
Adjustment on adoption of HKFRS 16	**–**	**–**	**–**	**–**	**–**	**(69)**	**(69)**
As at 1 January 2019 (restated)	**5,923**	**137,989**	**(11,131)**	**4,158**	**(8,971)**	**29,474**	**157,442**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(16,471)**	**(16,471)**
Other comprehensive income:							
Exchange difference arising on translating of foreign operations	**–**	**–**	**–**	**–**	**392**	**–**	**392**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**392**	**(16,471)**	**(16,079)**
Issue of shares upon the Placing	**1,177**	**25,837**	**–**	**–**	**–**	**–**	**27,014**
As at 31 December 2019	**7,100**	**163,826**	**(11,131)**	**4,158**	**(8,579)**	**13,003**	**168,377**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL INFORMATION

Zhi Sheng Group Holdings Limited (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, the Cayman Islands. Its principal place of business is at Room 747, 7/F, Star House, 3 Salisbury Road, Tsim Sha Tsui, Hong Kong and its headquarter 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 and the Group is principally engaged in manufacture and sales of office furniture products in the PRC.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Adoption of new/revised HKFRSs — effective 1 January 2019

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

- HKFRS 16, Leases
- HK(IFRIC)-Int 23, Uncertainty over Income Tax Treatments
- Amendments to HKFRS 9, Prepayment Features and Negative Compensation
- Amendments to HKAS 19, Plan Amendment, Curtailment or Settlement
- Amendments to HKAS 28, Long-term Interests in Associates and Joint Ventures
- Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 included in Annual Improvements to HKFRSs 2015-2017 Cycle

The impact of the adoption of HKFRS 16 Leases has been summarised in below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

HKFRS 16 — Leases

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("HKAS 17"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the consolidated statement of financial position as a right-of-use assets and a lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (v) of this note.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application (i.e. 1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The following table summarised the impact of transition to HKFRS 16 on consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows:

Consolidated statement of financial position as at 1 January 2019	**(Increase/ (decrease))** *RMB'000*
Non-current assets	
Increase in right-of-use assets	**17,357**
Decrease in payments for leasehold land held for own use under operating lease	**(14,206)**
Current assets	
Decrease in payments for leasehold land held for own use under operating lease	**(230)**
Current liabilities	
Increase in lease liabilities	**1,944**
Non-current liabilities	
Increase in lease liabilities	**1,046**
Equity	
Decrease in retained earnings	**(69)**

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

	RMB'000
Operating lease commitment as of 31 December 2018	3,394
Less: practical expedient for which lease term ended 12 months from the date of initial application	(159)
Less: future interest expenses	(245)
Total lease liabilities as of 1 January 2019	2,990

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 is 5.3%.

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the consolidated statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-of-use assets at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

At date of initial application of HKFRS 16, the Group's payments for leasehold land held for own use under operating lease are reclassified to right-of-use assets. The Group also has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. All of the Group's right-of-use assets arising from the properties under tenancy agreements are carried at depreciated cost.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Transition

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at date of commencement of the lease contracts.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases under HKAS 17 as if HKFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of commencement of the lease contracts. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the following practical expedient: The exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int4.

3. BASIS OF PREPARATION

The financial statements have been prepared in accordance with all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations and the provisions of the Hong Kong Companies Ordinance which concern the preparation of financial statements. In addition, the financial statements include applicable disclosures required by the GEM Listing Rules.

4. SEGMENT REPORTING

(a) Reportable segments

The executive Directors of the Company have determined that the Group has only one single operating segment which is manufacture and sale of office furniture products in the PRC. The executive directors of the Company allocate resources and assess performance on an aggregated basis.

(b) Geographical information

The Company is an investment holding company incorporated in the Cayman Islands and the principal place of the Group's operations is the PRC. Accordingly, the management determines the Group is domiciled in the PRC.

The following table provides an analysis of the Group's revenue from external customers.

	2019	2018
	RMB'000	*RMB'000*
Revenue from external customers		
The PRC (domicile)	**48,610**	74,866

The geographical location of revenue allocated is based on the location at which the goods were delivered. No geographical location of non-current assets is presented as all of the Group's non-current assets are physically based in the PRC.

(c) Information about a major customer

The Group's customer base is diversified and includes only the following customer with whom transactions have exceeded 10% of the Group's revenue. During the year, revenue derived from the customer is as follows:

	2019	2018
	RMB'000	*RMB'000*
Customer A	**11,089**	12,195

5. REVENUE

An analysis of revenue is as follows:

	2019 *RMB'000*	2018 *RMB'000*
Revenue recognised at a point in time		
Sale of office furniture products	**48,610**	74,866

Disaggregated revenue information

	2019 *RMB'000*	2018 *RMB'000*
Type of customers		
PRC governmental departments	**9,903**	11,824
Financial institutions	**12,736**	15,015
Other entities	**25,971**	48,027
	48,610	74,866

The Group's performance obligation is satisfied when goods are transferred to customers, i.e. when office furniture products are delivered, installed and accepted by customers.

6. OTHER INCOME

	2019 *RMB'000*	2018 *RMB'000*
Bank interest income	**26**	54
Exchange gain, net	**–**	45
Interest income from other receivables	**63**	720
Interest income arising from unwinding contract assets with significant financing component	**154**	509
Dividend income from financial assets at fair value through profit or loss	**463**	–
Fair value changes on financial assets at fair value through profit or loss	**29**	–
Subsidy income	**161**	87
Others	**9**	8
	905	1,423

7. FINANCE COSTS

	2019 *RMB'000*	2018 *RMB'000*
Interest expense on lease liabilities	**130**	–

8. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax expense is arrived at after charging/(crediting):

	2019	2018
	RMB'000	*RMB'000*
Auditor's remuneration	**635**	624
Amortisation of payments for leasehold land held for own use under operating leases	**–**	341
Cost of inventories recognised as expense	**37,897**	48,813
Write-down of inventories to net realisable value	**437**	369
Depreciation of right-of-use assets	**1,502**	–
Depreciation of property, plant and equipment	**3,998**	4,160
Loss on disposal of property, plant and equipment	**8**	88
Impairment loss on trade receivables	**2,398**	146
Write-off of other receivables	**117**	–
Operating lease charges on rental premises	**–**	1,363
Short term lease with application of recognition exemption under HKFRS16	**90**	–
Staff costs (including directors' remuneration)		
— Salaries, allowances and benefits in kind	**8,516**	7,733
— Retirement benefit scheme contribution	**2,275**	2,295
	10,791	10,028

9. INCOME TAX (CREDIT)/EXPENSE

	2019	2018
	RMB'000	*RMB'000*
Current tax		
— tax for the year	**–**	1,458
— over-provision in respect of prior years	**(834)**	(11)
	(834)	1,447
Deferred tax	**(239)**	(239)
Income tax (credit)/expense	**(1,073)**	1,208

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

No Hong Kong profit tax was provided in the consolidated financial statements as the Group has no estimated assessable profit derived from and earned in Hong Kong during the years ended 31 December 2019 and 2018.

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

Deferred tax liabilities have not been established for the withholding tax that would be payable on the undistributed earnings of subsidiaries of approximately RMB33,402,000 (2018: RMB43,697,000) as the Group is in a position to control the dividend policies of the subsidiary and it is probable that such amount will be reinvested in the foreseeable future.

10. DIVIDENDS

No dividend has been paid or declared during the years ended 31 December 2019 and 2018 nor has any dividend been declared since the end of the reporting period.

11. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share attributable to the owners of the Company is based on the loss for the year ended 31 December 2019 of approximately RMB16,471,000 (profit for the year 2018: RMB4,979,000), and the basis of weighted average number of 739,019,178 ordinary shares of the Company in issue (2018: the basis of 670,000,000 ordinary shares of the Company in issue during the year ended 31 December 2018).

There were no dilutive potential ordinary shares in issue for the years ended 31 December 2019 and 2018. Accordingly, the diluted earnings per share presented are the same as basic earnings per share.

12. TRADE AND OTHER RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables *(Note (a))*	**11,713**	18,549
Other receivables	**9,893**	3,855
Deposits	**1,695**	1,389
Prepayments	**24,277**	25,464
	47,578	49,257
Less: Loss allowances	**(2,661)**	(308)
	44,917	48,949

(a) Trade receivables

	2019	2018
	RMB'000	*RMB'000*
Trade receivables, gross	**11,713**	18,549
Less: Loss allowance	**(2,661)**	(263)
Trade receivables, net	**9,052**	18,286

The credit periods on sales of goods for customers are normally within 30 days or up to 180 days from invoice date depends on contract terms.

The ageing analysis of trade receivables as of the end of reporting period, based on invoice dates, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**3,720**	7,217
More than 3 months	**7,993**	11,332
	11,713	18,549

The ageing analysis of trade receivables as of the end of reporting period, based on past due dates and net of loss allowance, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Current (not past due)	**3,030**	7,279
Less than 1 month past due	**378**	684
1 to 3 months past due	**1,276**	2,033
More than 3 months but less than 6 months past due	**775**	5,742
More than 6 months past due	**3,593**	2,548
	9,052	18,286

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 related to a number of independent customers that have a good track record with the Group. The Group did not hold any collateral as security or other credit enhancements over the trade receivables.

13. TRADE AND OTHER PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**3,884**	4,496
Other payables and accruals	**3,572**	3,731
Other tax payables	**3,823**	4,664
	11,279	12,891

The ageing analysis of the Group's trade payables as of the end of reporting period, based on invoice dates is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**467**	459
More than 3 months	**3,417**	4,037
	3,884	4,496

14. SHARE CAPITAL — GROUP AND COMPANY

The movements in the issued ordinary share capital during the year are as follows:

	Number	*RMB'000*
Authorised:		
Ordinary shares of the Company of HK$0.01 each		
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	1,500,000,000	13,493
Issued and fully paid:		
At 1 January 2018, 31 December 2018, 1 January 2019	670,000,000	5,923
Issue of shares upon the placing *(note)*	134,000,000	1,177
At 31 December 2019	804,000,000	7,100

Note: On 25 June 2019, the Company placed 134,000,000 new shares at HK$0.235 per share under general mandate for a total gross proceeds of HK$31,490,000 (the "Placing"). The net proceeds (after deduction of underwriting fees and estimated expenses payable by the Company in relation to the Placing) will be used to finance the use of proceeds as referred to in the Company's announcement dated 25 June 2019 in relation to completion of the Placing. The proceeds of HK$1,340,000 representing the par value of the shares of the Company, were credited to the Company's share capital and the remaining proceeds of HK$30,150,000 before issuing expenses, were credited to share premium account of the Company.

15. RESERVES

Details of the movements on the Group's reserves for the years ended 31 December 2019 and 2018 are presented in the consolidated statement of changes in equity.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

The impact of the 2019 "China-US trade war" continues, China's macro economy is facing further downward pressure. Under such economic slowdown, the prospects and growth of the customers' business may be significantly hindered, they may turn to be more cautious when purchasing and/or changing office furniture. 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 the extended office furniture allocation, resulting in the reduction of government procurement of office furniture; Furthermore, the increasingly strict environmental regulation of governments at all levels in China increased the pressure on product cost. Affected by the above factors, the intense competition in the domestic market in China, the weakened overall demand, plus the outbreak of the novel coronavirus, the Group's development is facing a greater challenge, it is expected that the operation in the upcoming one to two years will still be under great pressure.

For the year ended 31 December 2019, the revenue of the Group was approximately RMB48.6 million, representing a decrease of approximately RMB26.3 million or 35.1% as compared to the same period in 2018. This was mainly due to the fact that, Sichuan Greenland's revenue in Sichuan Province, Yunnan Province and Tibet Autonomous Region had decreased by approximately RMB12.6 million as compared to the same period of 2018. Meanwhile, the revenue in Guizhou Province and Chongqing City increased by approximately RMB3.4 million as compared to the same period in 2018, making up for the decline in revenue of the above Southwest provinces. For Guangxi Autonomous Region, Guangdong Province, Jiangsu Province and Beijing City, due to the non-sustainable (or one-off) nature of the sales orders of bidding customers, the revenue in 2019 failed to sustain and the revenue of the above four provinces and autonomous regions decreased by approximately RMB14.5 million as compared to the same period in 2018. In addition, the revenue of Chongqing branch decreased by approximately RMB1.8 million as compared to the same period in 2018. The aforementioned factors jointly led to the significant decline in the revenue of the Group as compared with that of the same period of the last year.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the Group recorded revenue of approximately RMB48.6 million, representing a decrease of approximately RMB26.3 million or 35.1% as compared to the same period in 2018.

Revenue of Sichuan Greenland was approximately RMB41.6 million for the year ended 31 December 2019, representing a decrease of approximately RMB24.4 million or 37.0% as compared to the year ended 31 December 2018. Such decline was mainly attributable to:

(i) Revenue attributable to our historically strong sales provinces and autonomous regions such as Sichuan Province, Guizhou Province, Chongqing City, Yunnan Province, Tibet Autonomous Region decreased by approximately RMB9.2 million or 18.4%. Among them, Guizhou recorded revenue of approximately RMB5.2 million, representing an increase of approximately RMB3.0 million or 133.8% as compared with the year ended 31 December 2018, it was mainly due to the significant increase of sales of one financial institution. Revenue contributed by that customer was increased from approximately RMB2.1 million in 2018 to approximately RMB4.9 million in 2019. Chongqing City recorded revenue of RMB4.3 million, representing an increase of approximately RMB0.4 million or 11.6% as compared to the year ended 31 December 2018, it was mainly attributable to obtaining an order from a governmental department, revenue of which was approximately RMB1.8 million. Other provinces and autonomous regions represented a more significant decline. Among them, Sichuan Province recorded revenue of approximately RMB28.0 million, representing a decrease of approximately RMB11.1 million or 28.4% as compared to the year ended 31 December 2018. Yunnan Province recorded revenue of RMB0.2 million, representing a decrease of approximately RMB1.1 million or 83.4% as compared to the year ended 31 December 2018. Tibet Autonomous Region recorded revenue of approximately RMB2.9 million, representing a decrease of approximately RMB0.3 million or 9.5%. Major reasons for the decline in the revenue of Sichuan Province, Yunnan Province and Tibet Autonomous Region were: the revenue from financial institutions was decreased from approximately RMB10.3 million in 2018 to approximately RMB5.1 million in the same period of 2019, representing a decrease of approximately RMB5.2 million or 50.1%; Furthermore, the large customer orders obtained in 2019 were noticeably less than that of the same period in 2018, the average sales from new customers were lower, so the realized revenue did not make up for the decline in revenue of the above provinces and autonomous regions; and

(ii) For the same period in 2018, the realized revenue of Guangxi Autonomous Region and Jiangsu Province were RMB10.8 million and RMB1.8 million, respectively, while there were almost no realized revenue for the two province and autonomous region in 2019; and (iii) For the same period in 2018, the realized revenue of Guangdong Province and Beijing City were RMB1.6 million and RMB1.2 million, respectively, while in 2019, the aforesaid province and autonomous region represented a year-on-year decrease of 48.0% and 95.4%, respectively. The above four provinces and autonomous regions were the major reasons for the significant decline of the sales in this year.

For the year ended 31 December 2019, the revenue generated by the Chongqing branch was approximately RMB7.0 million, representing a decrease of approximately RMB1.8 million or 20.8% as compared with the year ended 31 December 2018. This was mainly due to the fact that for the year ended 31 December 2018, we achieved revenue of approximately RMB5.0 million from the three largest customers, while for the year ended 31 December 2019, we only achieved revenue of approximately RMB3.3 million from them, the revenue generated from and the average sales volume of new customers were relatively low.

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, utilities bills and maintenance fee. For the year ended 31 December 2019, the Group's cost of sales amounted to approximately RMB37.9 million, representing a decrease of approximately RMB10.9 million or 22.4% from approximately RMB48.8 million for the year ended 31 December 2018. Such decrease was mainly due to the decrease in the Group's sales of approximately RMB26.3 million, analysis was done based on the cost of sales, among them (i) the decrease in the cost of raw materials used and cost of goods purchased of approximately RMB11.3 million; (ii) an increase in salary of production staff of approximately RMB0.5 million; and (iii) a decrease in other production expenses of approximately RMB0.1 million.

Gross profit

Gross profit decreased from approximately RMB26.1 million for the year ended 31 December 2018 to approximately RMB10.7 million for the year ended 31 December 2019. The gross profit margin decreased from approximately 34.8% for the year ended 31 December 2018 to approximately 22.0% for the year ended 31 December 2019. Such decrease was mainly attributable to the decrease in sales had passed the decrease in cost of sales. For the year ended 31 December 2019, the sales decreased by approximately RMB26.3 million or 35.1% as compared to the same period of 2018, while the cost of sales only showed a decrease of approximately RMB10.9 million or 22.4% as compared to the same period in 2018, resulting in a significant decrease in total gross profit and gross profit margin.

Other income

For the year ended 31 December 2019, the Group's other income amounted to approximately RMB905,000, representing a decrease of approximately 36.4% from approximately RMB1,423,000 for the year ended 31 December 2018. Such decrease was mainly attributable to the significant decrease in interest income from other receivables for this year as compared to that of the last year and interest income arising from unwinding of discounted quality assurance deposits was lower than that in the corresponding period of 2018 which exceeded the dividend income from financial assets at fair value through profit or loss.

Selling and distribution expenses

For the year ended 31 December 2019, the Group's selling and distribution expenses amounted to approximately RMB8.6 million, representing an increase of approximately 69.7% from approximately RMB5.1 million for the year ended 31 December 2018. Such increase was mainly because the Group (i) commenced to amortise the renovation and refurbishment of the new exhibition hall at Chengdu, (ii) wrote off the display products in the preceding exhibition hall at Chongqing, and (iii) incurred higher installation and transportation costs as a result of the increase in scattered customers in remote areas. The above factors had led to the substantial increase in selling and distribution expenses as compared to the corresponding period in 2018.

Administrative and other expenses

For the year ended 31 December 2019, the Group's administrative and other expenses amounted to approximately RMB20.4 million, representing an increase of approximately 25.9% from approximately RMB16.2 million for the year ended 31 December 2018. Such increase was mainly attributable to (i) the increase in loss allowances for trade receivables of the Group, (ii) the addition of legal professional charges in respect of the acquisition of Polyqueue Limited by the Group, and (iii) the increase in the R&D expenses of innovative products for this year as compared with the same period of last year.

Income tax credit/expense

For the year ended 31 December 2019, the income tax credit of the Group amounted to approximately RMB1.1 million, while for the year ended 31 December 2018, the income tax expense was approximately RMB1.2 million. Such decrease was mainly attributable to: (i) the fact that the Group was not subject to income tax as it incurred loss during the respective period; (ii) deferred tax credit in respect of fair value adjustment arising from the acquisition of a subsidiary in prior year; and (iii) income tax credit for the current period because over-provision in prior year was reversed in the year.

Loss for the year attributable to the owners of the Company

For the year ended 31 December 2019, the loss for the year attributable to the owners of the Company amounted to approximately RMB16.5 million, while for the year ended 31 December 2018, the profit for the year attributable to the owners of the Company amounted to approximately RMB5.0 million. The major reasons for turning profit to loss were (i) the decrease in revenue by 35.1% for the year ended 31 December 2019 as compared with the same period in 2018, resulting in a decrease in total gross profit of approximately RMB15.3 million; and (ii) the selling and distribution expenses, administrative and other expenses for the year increased by approximately RMB3.6 million and RMB4.2 million, respectively as compared with the same period in 2018. These were the major factors leading to the decline in profit.

Contract assets, trade and other receivables

Contract assets, trade and other receivables decreased from approximately RMB53.7 million as at 31 December 2018 to approximately RMB48.3 million as at 31 December 2019. Such decrease was mainly attributable to recovering customers' trade settlements on schedule and the decrease in net contract assets, trade and other receivables resulting from the increase in loss allowances for this year.

Contract liabilities, trade and other payables

Contract liabilities, trade and other payables increased from approximately RMB14.0 million as at 31 December 2018 to approximately RMB15.1 million as at 31 December 2019. Such increase was mainly because the increased order backlog in 2019 increased the amount of contract liabilities from Sichuan Greenland.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS AND USE OF PROCEEDS FROM THE PLACING

The Company successfully listed on GEM on 20 January 2017 by the way of placing (the "Placing") 268,000,000 ordinary shares issued at HK$0.31 per share on 19 January 2017. The following sets out a comparison and analysis of the business objectives as stated in the prospectus of the Company (the "Prospectus") with the Group's actual business progress up to 31 December 2019 (the "Review Period"):

Business Objectives	**Actual Business Progress**
Renovation and refurbishment of the exhibition hall to enhance customer experience	Completion of renovation of the exhibition hall at Sichuan Greenland, which has been put into use
Purchase machinery and equipment for the Group's production facilities and to strengthen our production capability	Machinery and equipment have been purchased as planned and have been delivered (the purchase of some machines was temporarily suspended due to the market downturn)

Net proceeds from the Placing amounted to approximately HK$59.7 million (after deducting underwriting fees and other related expenses).

During the Review Period, net proceeds have been used in the following manner:

	Adjusted use of proceeds in the same manner and proportion as stated in the Prospectus	**Actual use of proceeds during the Review Period**
	HK$ million	*HK$ million*
Renovation of the exhibition hall at Sichuan Greenland	5.0	5.0
Acquisition of machinery and equipment	10.9	6.1
Repayment of existing short-term bank borrowings	42.8	42.8
Working capital and other general corporate purposes	1.0	1.0
	59.7	54.9

As of the date of this announcement, the renovation of the Group's Chengdu exhibition hall has been completed and was put into operation in the first quarter of 2018; the Group has purchased machinery and equipment as planned and the equipment has been delivered (the purchase of some machines was temporarily suspended due to the market downturn); the Group has repaid loans of approximately HK$7.2 million to financial institutions in Hong Kong and RMB30.0 million (HK$35.6 million) to China CITIC Bank. Out of the funds raised from the Placing, HK$1.0 million was used as working capital of the Group in accordance with the intended use. The unutilized net proceeds have been deposited as interest bearing deposits in licensed banks in Hong Kong and the PRC.

According to the Company's announcement dated 19 February 2020, after considering the existing business condition and development of the Group, the Board has resolved to reallocate and change the use of proceeds from the Listing. As set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus, the Company intended to deploy HK$10.9 million out of the net proceeds received from the Listing, for the purpose of the acquisition of new machinery and equipment. As at the date of that announcement, approximately HK$6.1 million has been used as intended. The un-utilised proceeds of approximately HK$4.8 million were deposited in the Group's bank accounts. This is mainly due to the intensified domestic market competition, the "China-US trade war", the PRC government policies which reduced government procurement of office furniture, together with the recent outbreak of the novel coronavirus, the Group expects to face challenges and pressures in its furniture business in the future. Therefore, the Company considered that there will not be a present need to further acquire the machinery and equipment for its furniture business as planned. As such, to maintain flexibility in funding for daily operation, the Company considers it is more reasonable and commercially beneficial to reallocate and change the use of the approximately HK$4.8 million balance of the proceeds as general working capital.

USE OF PROCEEDS FROM THE PLACING OF NEW SHARES UNDER THE GENERAL MANDATE

On 25 June 2019, pursuant to the terms and conditions of the placing agreements dated 6 June 2019 and 10 June 2019, the Company has placed a total of 134,000,000 ordinary shares to no less than six placees, who are independent third parties, at a price of HK$0.235 per share (the "Placing of New Shares Under General Mandate") (equivalent to approximately 16.67% of the issued share capital of the Company as enlarged by the 2019 Placing of New Shares Under General Mandate).

As of 31 December 2019, the Group has used the above net proceeds from the Placing of New Shares Under General Mandate for the following purposes:

	Use of proceeds in the same manner and proportion as stated in the announcement dated 25 June 2019	**Actual use of proceeds as of 31 December 2019**
	HK$ million	*HK$ million*
Procurement of raw materials required for production	12.92	5.59
Increase in liquidity of the Group to provide customers with a longer credit period	7.07	4.50
Used as working capital of the Group to fulfill its obligations such as paying professional fees	10.77	4.75
	30.76	14.84

As at the date of this announcement, the above net proceeds have not been utilized and have been deposited as interest-bearing deposits in licensed banks in Hong Kong and the PRC.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

During the year ended 31 December 2019, the Group financed its operations by internally generated cash flow and net proceeds from the Placing of New Shares Under General Mandate. As at 31 December 2019, the net current assets of the Group amounted to approximately RMB107.2 million (31 December 2018: approximately RMB93.7 million), including bank balances and cash of approximately RMB49.1 million (31 December 2018: approximately RMB37.4 million). The Group has no outstanding interest-bearing bank loans as at 31 December 2019 (31 December 2018: Nil). As at 31 December 2019, the current ratio, being the ratio of current assets to current liabilities, was approximately 7.7 (31 December 2018: 7.1).

CAPITAL STRUCTURE

For the year ended 31 December 2019, the Group's total equity attributable to owners of the Company amounted to approximately RMB168.4 million (31 December 2018: approximately RMB157.5 million). The Group's equity attributable to owners of the Company included share capital and reserves.

FOREIGN EXCHANGE EXPOSURE RISKS

As the Group's business transactions are mainly conducted in RMB, the exposure of the Group to foreign exchange fluctuations was not significant. As at 31 December 2019, the Group was not a party of any foreign currency hedging instruments. However, the Group will review and monitor foreign exchange exposure risks from time to time.

FINANCIAL POLICIES

The Group is exposed to liquidity risk in respect of settlement of its trade payables and financing obligations, and also in respect of its cash flow management. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

GEARING RATIO

The gearing ratio as at 31 December 2019 (defined as total debt divided by total equity, total debt represents all liabilities excluding contract liabilities, trade payables, tax payable, deferred tax liabilities and provision (if any)) was approximately 0.03 (31 December 2018: approximately 0.02)

CAPITAL COMMITMENTS

As at 31 December 2019, the Group had no significant capital commitments.

PLEDGE OF ASSETS

As at the date of this announcement, the land use rights and property of the Group's production facilities in Chengdu City were pledged as security for the working capital loans from China Citic Bank on 10 January 2020 in the amount of RMB30.0 million for the term of one year. Other than that, the Group had no asset pledge agreement.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for the matters in relation to the preparation for the acquisition of the entire issued share capital of Polyqueue Limited (details of which have been set out in the announcements dated 21 October 2019, 11 November 2019 and 12 December 2019, the circular dated 13 December 2019 and the announcement dated 15 January 2020 of the Company), the Group did not have other future plans for material investments or capital assets as of 31 December 2019.

CONTINGENT LIABILITIES

As at the date of this announcement, the Group had no significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group engaged a total of 197 employees (2018: 236) including the Directors. For the year ended 31 December 2019, total staff costs amounted to approximately RMB10.8 million (2018: approximately RMB10.0 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.

ENVIRONMENT POLICIES AND PERFORMANCE

The principal activity of the Group is governed by PRC environmental laws and regulations including the Environment Protection Law of the PRC. These laws and regulations cover a broad range of environmental matters, including air pollution, noise emissions, discharge of sewage and waste residues.

The Group recognises the importance of environmental protection and has implemented various environmental protection measures in order to minimise the operation impact on the environment and natural resources. The Group will continue to monitor the production process in order to ensure that it does not have significant adverse effect on the environment and that the Group's environment protection measures are adequate to ensure compliance with all applicable current local and national PRC regulations.

As at the date of this announcement, no administrative sanction, penalty or punishment has been imposed upon the Group for the violation of any environmental laws or regulations.

EVENTS AFTER THE REPORTING PERIOD

On 10 January 2020, the Group obtained a working capital loan from China Citic Bank in the amount of RMB30.0 million for the term of one year, secured by the land use rights and property of its production facilities in Chengdu City.

On 15 January 2020, all conditions under the Group's Sale and Purchase Agreement of the acquisition of Polyqueue Limited (the "Target Company") have been fulfilled and completion took place on 15 January 2020. Upon completion, the Target Company has become a direct wholly-owned subsidiary of the Company and its financial results will be consolidated into the financial statements of the enlarged Group.

On 19 February 2020, the Board resolved to reallocate and change the use of proceeds. The details have been disclosed in the announcement dated 19 February 2020 of the Company.

Except for the events mentioned on the above, the Group has no discloseable matters which are yet to be disclosed as of the date of this announcement.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save for the matters in relation to the preparation for the acquisition of the entire issued share capital of Polyqueue Limited (details of which have been set out in the announcements dated 21 October 2019, 11 November 2019 and 12 December 2019, the circular dated 13 December 2019 and the announcement dated 15 January 2020 of the Company), during the year ended 31 December 2019, the Group did not have any significant investment, material acquisitions nor disposals of subsidiaries and affiliated companies.

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 assist the Board by providing an independent view of the effectiveness of the Company's internal control and risk management system, overseeing the balance, transparency and integrity of the Company's financial statements and the application of financial reporting principles, reviewing the relationship with the external auditor and its independence assessment and the adequacy of resources, qualifications and experience of the Company's accounting staff, their training programs and budget.

REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2019.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2019 as set out in this preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

CORPORATE GOVERNANCE

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 year ended 31 December 2019 and up to the date of this announcement, the Company has complied with the applicable code provisions of the CG Code.

DIVIDENDS

The Board does not recommend the payment of any dividend for the year ended 31 December 2019 (2018: Nil). No shareholder has agreed to waive dividends.

ANNUAL GENERAL MEETING (THE "AGM")

The AGM of the Company will be held on Friday, 5 June 2020 at 12:00 a.m. A notice convening the AGM will be published on the Company's website at www.qtbgjj.com and the GEM website at www.hkgem.com in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 2 June 2020 to Friday, 5 June 2020, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 1 June 2020.

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 year ended 31 December 2019 and up to the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

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

Hong Kong, 25 March 2020

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

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