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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 Main Board. 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 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 (together 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

The board of Directors of the Company (the "**Board**") is pleased to present the unaudited condensed consolidated results of the Group for the three months and the six months ended 30 June 2020, together with the comparative unaudited figures for the corresponding period in 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 JUNE 2020

	Notes	For the three months ended 30 June 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)	For the six months ended 30 June 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	3	**27,235**	12,156	**43,251**	19,897
Cost of sales		**(21,019)**	(8,204)	**(33,614)**	(13,519)
Gross profit		**6,216**	3,952	**9,637**	6,378
Other income		**709**	544	**1,436**	615
Selling and distribution expenses		**(2,399)**	(1,264)	**(4,381)**	(2,533)
Administrative and other expenses		**(5,075)**	(3,781)	**(11,321)**	(6,543)
Finance costs		**(1,385)**	–	**(2,337)**	–
Loss before income tax		**(1,934)**	(549)	**(6,966)**	(2,083)
Income tax credit/(expense)	4	**122**	(129)	**164**	(70)
Loss for the period attributable to the owners of the Company		**(1,812)**	(678)	**(6,802)**	(2,153)
Other comprehensive income/(loss) for the period:					
Item that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations		**1,342**	(56)	**205**	(38)
Total comprehensive loss for the period attributable to the owners of the Company		**(470)**	(734)	**(6,597)**	(2,191)
Loss per share	6				
— Basic and diluted (RMB cents)		**(0.20)**	(0.10)	**(0.76)**	(0.32)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**49,606**	51,570
Right-of-use assets		**42,721**	15,993
Intangible asset		**10,625**	–
Goodwill	*7*	**35,883**	–
Total non-current assets		**138,835**	67,563
Current assets			
Financial assets at fair value through profit or loss		**–**	4,115
Inventories		**21,774**	21,611
Contract assets		**3,620**	3,432
Trade and other receivables	*8*	**71,380**	44,917
Cash and cash equivalents		**68,425**	49,079
Total current assets		**165,199**	123,154
Total assets		**304,034**	190,717
Current liabilities			
Contract liabilities		**1,757**	3,810
Trade and other payables	*9*	**18,830**	11,279
Lease liabilities		**12,603**	901
Bank borrowings		**30,000**	–
Total current liabilities		**63,190**	15,990
Net current assets		**102,009**	107,164
Total assets less current liabilities		**240,844**	174,727

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Notes	**30 June 2020 RMB'000 (Unaudited)**	31 December 2019 RMB'000 (Audited)
Non-current liabilities			
Lease liabilities		**23,356**	1,131
Other payables	*9*	**6,665**	–
Deferred tax liabilities		**6,617**	5,219
Convertible bond		**8,800**	–
Total non-current liabilities		**45,438**	6,350
Total liabilities		**108,628**	22,340
NET ASSETS		**195,406**	168,377
EQUITY			
Equity attributable to owners of the Company			
Share capital		**8,017**	7,100
Reserves		**187,389**	161,277
TOTAL EQUITY		**195,406**	168,377

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Share capital RMB'000	Share premium RMB'000	Convertible bond equity reserve RMB'000	Other reserve RMB'000	Statutory reserve RMB'000	Foreign exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1 January 2019 (Audited, restated)	5,923	137,989	–	(11,131)	4,158	(8,971)	29,474	157,442
Loss for the period	–	–	–	–	–	–	(2,153)	(2,153)
Other comprehensive income:								
Exchange difference arising on translating of foreign operations	–	–	–	–	–	(38)	–	(38)
Total comprehensive expense for the period	–	–	–	–	–	(38)	(2,153)	(2,191)
Issue of shares upon the Placing	1,177	25,837	–	–	–	–	–	27,014
Transfer to statutory reserve	–	–	–	–	57	–	(57)	–
As at 30 June 2019 (Unaudited)	7,100	163,826	–	(11,131)	4,215	(9,009)	27,264	182,265
As at 1 January 2020 (Audited)	**7,100**	**163,826**	**–**	**(11,131)**	**4,158**	**(8,579)**	**13,003**	**168,377**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(6,802)**	**(6,802)**
Other comprehensive income:								
Exchange difference arising on translating of foreign operations	**–**	**–**	**–**	**–**	**–**	**205**	**–**	**205**
Total comprehensive expense for the period	**–**	**–**	**–**	**–**	**–**	**205**	**(6,802)**	**(6,597)**
Issue of shares *(Note 7)*	**917**	**23,370**	**–**	**–**	**–**	**–**	**–**	**24,287**
Issue of convertible bond *(Note 7)*	**–**	**–**	**9,339**	**–**	**–**	**–**	**–**	**9,339**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**186**	**–**	**(186)**	**–**
As at 30 June 2020 (Unaudited)	**8,017**	**187,196**	**9,339**	**(11,131)**	**4,344**	**(8,374)**	**6,015**	**195,406**

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 Room 747, 7/F, Star House, 3 Salisbury Road, Kowloon, 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 furniture products in the PRC; and started to engage in data centre business in the PRC, as detailed in note 7, after completion of the acquisition of the entire issued share capital of Polyqueue Limited on 15 January 2020.

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 six months ended 30 June 2019 and 2020 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 disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

Other than the adoption of the new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**") during the accounting period from 1 January 2020, 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 2019.

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.

3. REVENUE AND SEGMENT INFORMATION

The operating segments are determined with reference to the reports and financial information reviewed by the Company's executive directors and senior staff responsible for financial and accounting matters (the "**Chief Operating Decision Makers**") for the purpose of assessment of performance and resource allocation.

For the six months ended 30 June 2019, the Group has only one reportable segment, which is manufacture and sale of furniture products. For the six months ended 30 June 2020, the Group started to have one more reportable segment, which is to conduct data centre business by acquiring Polyqueue Limited, a subsidiary with major business of data centre. The following summarises the operation of each reportable segment of the Group:

- Manufacture and sale of furniture products — manufacture and sale of furniture products in the PRC for selling to the domestic PRC market; and
- Data centre — data centre business in the PRC.

Business segments

The following is an analysis of the Group's revenue and performance by operating and reportable segments for the six months ended 30 June 2020:

	Manufacture and sale of furniture products	Data centre	Consolidated
	RMB'000	RMB'000	RMB'000
Revenue			
Revenue from external customers	31,331	11,920	43,251
Reportable segment revenue	31,331	11,920	43,251
Reportable segment results	(3,133)	808	(2,325)
Unallocated:			
Corporate and other unallocated expenses			(4,360)
Interest income			3
Finance costs			(284)
Loss before income tax			(6,966)

3. REVENUE AND SEGMENT INFORMATION (Continued)

Business segments (Continued)

The Group had no inter-segment transactions during the reporting period. Since central revenue and expenses are not included in the segment profit used by the Chief Operating Decision Makers for the purpose of assessment of segment performance, those are not allocated to each operating segment.

Unallocated expenses mainly include the headquarter expenses of the Group, which are not directly attributable to the business activities of any operating segment.

	Manufacture and sale of furniture products	Data centre	Unallocated	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Reportable segment assets	176,989	42,356	84,689	304,034
Liabilities				
Reportable segment liabilities	(48,696)	(44,866)	(15,066)	(108,628)
Reportable segment net assets	128,293	(2,510)	69,623	195,406

Unallocated corporate assets mainly include cash and cash equivalents held as general working capital of the Group as a whole and other corporate assets of the headquarters of the Group that are not directly attributable to the business activities of any operating segment. Unallocated corporate liabilities mainly include liabilities of the headquarters of the Group that are not directly attributable to business activities of any operating segment.

3. REVENUE AND SEGMENT INFORMATION (Continued)

Other information

	Manufacture and sale of furniture products	Data centre	Unallocated	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
Purchase of property, plant and equipment	6	–	–	6
Bank interest income	24	5	3	32
Interest income on other receivables	916	–	–	916
Interest income arising from unwinding contract assets with significant financing component	90	–	–	90
Fair value changes on financial assets at fair value through profit or loss	89	–	–	89
Dividend income from financial assets at fair value through profit or loss	161	–	–	161
Finance costs	(816)	(1,237)	(284)	(2,337)
Depreciation of property, plant and equipment	(1,970)	–	–	(1,970)
Depreciation of right-of-use assets	(612)	(5,612)	–	(6,224)
Impairment loss on trade receivables	(543)	(613)	–	(1,156)
Amortisation of intangible assets	–	(2,470)	–	(2,470)
Reversal of inventories to net realisable value	9	–	–	9

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.

No geographical location is presented as all of the Group's revenue and profit from operation are derived from its business in the PRC and all of the Group's non-current assets are based in the PRC.

3. REVENUE AND SEGMENT INFORMATION (Continued)

Information about major customers

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 announcement period, revenue derived from the customer is as follows:

	For the six months ended June 30	
	2020	2019
	RMB'000	RMB'000
Customer A	**4,847**	–
Customer B	**4,436**	N/A

Customer A and customer B are from the manufacture and sale of furniture products segment.

N/A: transactions in that period did not exceed 10% of the Group's revenue.

Revenue disaggregation

The revenue breakdown of the main products or service lines of the Group is as follows:

	For the six months ended June 30	
	2020	2019
	RMB'000	RMB'000
Revenue from contracts with customers in accordance with HKFRS 15		
Sale of furniture products	**31,331**	19,897
Information technology management service	**1,238**	–
Provision of internet access connection service	**410**	–
Excess electricity usage	**382**	–
	33,361	19,897
Revenue from other sources		
Rental of server rack	**9,890**	–
	43,251	19,897

3. REVENUE AND SEGMENT INFORMATION (Continued)

Revenue disaggregation (Continued)

	For the six months ended June 30	
	2020	2019
	RMB'000	RMB'000
Revenue from contracts with customers in accordance with HKFRS 15		
Timing of revenue recognition		
At a point in time	**31,331**	19,897
Over time	**2,030**	–
	33,361	19,897

Upon the completion of acquisition of Polyqueue Limited on 15 January 2020, the Group's revenue is mainly divided into two parts: sale of furniture products and data centre business, with an analysis as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Sale of furniture products	**20,549**	12,156	**31,331**	19,897
Data centre business	**6,686**	–	**11,920**	–
	27,235	12,156	**43,251**	19,897

4. INCOME TAX (CREDIT)/EXPENSE

	For the three months ended 30 June		For the six months ended 30 June	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Current tax				
— Tax for the period	**–**	189	**–**	189
Deferred tax				
— Current period	**(122)**	(60)	**(164)**	(119)
	(122)	129	**(164)**	70

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

No Hong Kong profit tax was provided in the consolidated financial statements as the Group has no estimated assessable profit derived from and earned in Hong Kong during the six months ended 30 June 2020 and 2019.

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

5. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (2019: Nil). No shareholder has agreed to waive dividends.

6. LOSS PER SHARE

The loss per share is calculated by dividing loss attributable to the owners of the Company by the weighted average number of 898,816,850 and 674,441,989 ordinary shares in issue for the six months ended 30 June 2020 and 2019.

	For the three months ended 30 June		For the six months ended 30 June	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
The loss used to calculate the basic loss per share	**(1,812)**	(678)	**(6,802)**	(2,153)
	'000 shares	'000 shares	**'000 shares**	'000 shares
Number of shares used to calculate the basic loss per share	**898,817**	674,442	**898,817**	674,442

Note: The calculation of the basic loss per share attributable to the owners of the Company is based on the loss for the six months ended 30 June 2020 of approximately RMB6.802 million (same period of the previous year: a loss of approximately RMB2.153 million), and on the weighted average number of 898,816,850 ordinary shares of the Company in issue (674,441,989 ordinary shares of the Company in issue for the same period of the previous year).

There were no dilutive potential ordinary shares in issue for the six months ended 30 June 2020 and 2019. Accordingly, the diluted loss per share presented are the same as basic loss per share.

7. ACQUISITION OF A SUBSIDIARY, POLYQUEUE LIMITED

On 21 October 2019, the Group and Polyqueue Limited entered into the sale and purchase agreement for the acquisition of the entire equity interests of Polyqueue Limited (the "**Acquisition**"). The Acquisition was completed on 15 January 2020 (the "**Acquisition Date**"). Upon completion, Polyqueue Limited has become a wholly-owned subsidiary of the Company and its financial results will be consolidated into the consolidated financial statements of the Group from the Acquisition Date.

Polyqueue Limited and its subsidiaries are principally engaged in the data centre business in the PRC. On the Acquisition Date, the total consideration of HK$37,200,000 (the "**Consideration**") of the Acquisition was satisfied in the following manner:

(i) a sum of HK$24,800,000 was satisfied by the Company to the vendors by allotting and issuing an aggregate number of 103,333,333 consideration shares (the "**Consideration Share(s)**") of the Company, credited as fully paid, to the vendors at the issue price of HK$0.24 per Consideration Share;

(ii) the balance of HK$12,400,000 was satisfied by the Company to the vendors by issuing to the vendors the convertible bonds (the "**Convertible Bonds**"), convertible into conversion shares at the initial conversion price of HK$0.24 per conversion share.

7. ACQUISITION OF A SUBSIDIARY, POLYQUEUE LIMITED (Continued)

The following table is the goodwill generated after the completion of the Acquisition:

	Fair value on the Acquisition Date
	RMB'000
Right-of-use assets	32,952
Intangible assets	13,095
Trade and other receivables	10,069
Cash and cash equivalents	948
Trade and other payables	(9,672)
Lease liabilities — current portion	(12,686)
Lease liabilities — non-current portion	(27,116)
Deferred tax liabilities	(1,561)
Net identifiable assets acquired	6,029
Goodwill	35,883
	41,912
Consideration paid in the following ways:	
Issue of Consideration Shares	24,287
Issue of Convertible Bond:	
— Liabilities portion	8,286
— Equity portion	9,339
	41,912

On 15 January 2020, the shares issued for the Acquisition of Polyqueue Limited of HK$1,033,333 represented the par value of the shares of the Company and were credited to the Company's share capital. The assessed fair value of HK$26,350,000 of the above shares were credited to the Company's share premium account. The equity portion of Convertible Bond issued of HK$12,400,000 was transferred to convertible bonds reserve based on its assessed fair value of HK$10,529,671.

From the Acquisition Date to 30 June 2020, Polyqueue Limited contributed approximately RMB11.9 million to the Group's revenue and approximately RMB0.8 million to the Group's profits.

8. TRADE AND OTHER RECEIVABLES

	As at 30 June 2020 RMB'000	As at 31 December 2019 RMB'000
Trade receivables *(Note (a))*	**24,896**	11,713
Other receivables *(Note (b))*	**12,315**	9,893
Deposits	**1,441**	1,695
Prepayments *(Note (c))*	**36,545**	24,277
	75,197	47,578
Less: loss allowances	**(3,817)**	(2,661)
	71,380	44,917

(a) Trade receivables

	As at 30 June 2020 RMB'000	As at 31 December 2019 RMB'000
Total trade receivables	**24,896**	11,713
Less: loss allowances	**(3,817)**	(2,661)
Trade receivables, net	**21,079**	9,052

The credit period granted to customers on product sales or services normally varies according to the terms of the contract, ranging from the invoice date to 30 days or up to 180 days.

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

8. TRADE AND OTHER RECEIVABLES (Continued)

(a) Trade receivables (Continued)

	As at 30 June 2020 RMB'000	As at 31 December 2019 RMB'000
Within 3 months	**12,575**	3,720
More than 3 months	**12,321**	7,993
	24,896	11,713

As of the end of the reporting period, the ageing analysis of trade receivables (net of loss allowances), based on past due dates, are as follows:

	As at 30 June 2020 RMB'000	As at 31 December 2019 RMB'000
Current (not past due)	**9,104**	3,030
Less than 1 month past due	**1,945**	378
1 to 3 months past due	**1,486**	1,276
More than 3 months but less than 6 months past due	**3,472**	775
More than 6 months past due	**5,072**	3,593
	21,079	9,052

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 does not hold any collateral over trade receivables as a guarantee or hold other credit enhancements.

The changes in the loss allowances on trade receivables are as follows:

	RMB'000
As at 1 January 2020	**2,661**
Loss allowances recognised during the period	**1,156**
As at 30 June 2020	**3,817**

8. TRADE AND OTHER RECEIVABLES (Continued)

(a) Trade receivables (Continued)

In adopting HKFRS 9, the Group has applied a simplified approach and used a provision matrix to estimate the lifetime expected credit losses.

The following table sets forth the Group's exposure to credit risks and expected credit losses for trade receivables as at 30 June 2020.

	Expected credit losses %	Gross carrying amount RMB'000	Lifetime expected credit losses RMB'000	Net carrying amount RMB'000
Current (not past due)	**0.08**	**9,111**	**7**	**9,104**
Less than 1 month past due	**0.36**	**1,952**	**7**	**1,945**
1 to 3 months past due	**1.72**	**1,512**	**26**	**1,486**
More than 3 months but less than 6 months past due	**13.37**	**4,008**	**536**	**3,472**
More than 6 months past due	**38.99**	**8,313**	**3,241**	**5,072**
		24,896	**3,817**	**21,079**

(b) Other receivables

As at 30 June 2020, other receivables included purchase of fixed income funds of approximately RMB9 million with an annual yield of 8.5% and a maturity of 6 months. The remaining receivables were normal current accounts receivable and interest receivable from independent third parties.

(c) Prepayments

As at 30 June 2020, the prepayments were mainly prepayments provided for the suppliers in respect of the purchase of raw materials or auxiliary furniture. The increase in the amount for the current period was mainly attributable to the advance payment to the two furniture manufacturers in Dongguan, Guangdong, amounting to approximately RMB7.4 million and RMB4.3 million, respectively, to assist the Group in fulfilling orders for major customers.

9. TRADE AND OTHER PAYABLES

	As at 30 June 2020 RMB'000	As at 31 December 2019 RMB'000
Trade payables *(Note (a))*	**10,354**	3,884
Other payables and accruals	**11,289**	3,572
Other tax payables	**3,852**	3,823
	25,495	11,279
Less: non-current liabilities *(Note (b))*	**(6,665)**	–
	18,830	11,279

(a) Trade payables

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

	30 June 2020 RMB'000	31 December 2019 RMB'000
Within 3 months	**7,127**	467
More than 3 months	**3,227**	3,417
	10,354	3,884

Among which, Polyqueue Limited, newly acquired by the Group, increased trade payables of approximately RMB2.4 million.

(b) Non-current liabilities

The amount was due to a registered owner of Beijing Wannuotong Technology Co., Ltd. the subsidiary of Polyqueue Limited. The amount was unsecured, interest-free and not repayable in one year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the manufacture and sale of furniture products in the PRC and 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. In addition, the Group completed the acquisition of Polyqueue Limited on 15 January 2020 and started to engage in data centre business in the PRC. It aims to establish diversified operations and strive for stable revenue, which is a strategic deployment to strengthen the Group's ability to overcome the economic difficulties.

Manufacture and sale of furniture business

During the first half of 2020, due to the novel coronavirus pneumonia epidemic situation, various furniture biddings were almost shut down for the first quarter. Although it has gradually recovered from the end of March, the Company obtained obviously less new orders, which is expected to have a significant impact on the performance of the second half of the year. Since resumption of work and production was delayed, the supply chain was not smooth. In order to ensure that the customer orders are delivered as scheduled, the Company allocated resources in all aspects, and at the cost of higher staff costs, travel expenses, installation and handling fees and loading and unloading fees, it finally overcame many difficulties and achieved relatively considerable sales performance.

MANAGEMENT DISCUSSION AND ANALYSIS

Data centre business

The Group completed the acquisition of Polyqueue Limited on 15 January 2020. Financial results of Polyqueue Limited were consolidated into the consolidated financial statements of the Group from the Acquisition Date. Since the current revenue of the company is mainly the rental income from server rack rentals and the signed rental contracts involve continuity before expiration, the impact of the novel coronavirus pneumonia epidemic on its financial results is relatively small. However, the epidemic situation still has a significant impact on the long-term development of new customers. The Company is actively seeking measures to source new customers in order to improve its performance. From the Acquisition Date to 30 June 2020, Polyqueue Limited contributed approximately RMB11.9 million to the Group's revenue and approximately RMB0.8 million to the profits.

For the six months ended 30 June 2020, the Group recorded a revenue of approximately RMB43.3 million, representing an increase of approximately RMB23.4 million or approximately 117.4% as compared to the same period of the previous year. For the six months ended 30 June 2020, the Group recorded a loss of approximately RMB6.8 million, as compared with the loss of approximately RMB2.2 million for the same period of the last year.

The significant increase in loss was mainly because the Group started to reduce gross profit of the projects since the end of the previous year to improve its competitiveness. Moreover, the Group's selling and distribution expenses increased by 73.0% from the same period of the last year, which was mainly due to the impact of novel coronavirus epidemic and the significant increases in the installation and handling fees, loading and unloading expenses and travel expenses incurred during the period. Meanwhile, the administrative and other expenses significantly increased as compared to the same period of the previous year, mainly due to (1) the amortisation of intangible assets incurred from the acquisition of Polyqueue Limited; (2) payment of legal professional charges in respect of the acquisition of Polyqueue Limited; (3) the increase in loss allowances for receivables; and (4) the significant increase in purchase of epidemic prevention materials and employee welfare expenses. In addition, the significant increase in the Company's finance costs was also an important reason for the significant increase in losses.

MANAGEMENT DISCUSSION AND ANALYSIS

Prospects

Looking forward, despite the significant regression of the Group's performance in the past two years, together with the impact of novel coronavirus epidemic this year which was more serious than expected, and that the Group expects that its operation in the next one or two years will still be under great challenges and pressures, the Group has no intention to reduce the scale of its furniture business and still continues to regard the furniture market as its main development direction. Despite the increasing competition in the overall furniture market and the further reshuffling of the market, the Company did not consider plans to withdraw from the furniture market or restructuring. The Company is confident that by virtue of its own advantages, it will further stabilise the Southwest market first, and expand markets outside the Southwest region in a timely manner when conditions are available.

Under the impact of novel coronavirus epidemic, the Company is conducting renegotiation with relevant customers on the contract amount, delivery time and other terms for major furniture sale and purchase agreements to adjust the delivery schedule, so as to minimise the negative economic impact on both parties. On the other hand, the Company works closely with suppliers to speed up the delivery of raw materials in order to ensure the Company's normal production order and meet customer delivery needs.

As various furniture biddings have gradually recovered, the Company actively participates in various furniture biddings. As of 30 June 2020, the Company entered into a number of furniture sale and purchase agreements of more than RMB500,000 with various customers, with a total amount of approximately RMB23.9 million. The Group operates its furniture business as usual, and the introduction of side business is a strategy to expand the Group's revenue source in order to support the development of furniture business. In the long run, the Group can withstand market fluctuations at different stages of the business and economic cycle.

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 six months ended 30 June 2020, the Group achieved a revenue of approximately RMB43.3 million, representing an increase of approximately RMB23.4 million or approximately 117.4% as compared to the same period of the previous year.

The Group completed the acquisition of the entire equity interests of Polyqueue Limited on 15 January 2020. Upon completion, Polyqueue Limited has become a wholly-owned subsidiary of the Company and its financial results has been consolidated into the consolidated financial statements of the Group from the Acquisition Date. The company and its subsidiaries are principally engaged in the data centre business in the PRC. From the Acquisition Date to 30 June 2020, revenue generated was approximately RMB11.9 million.

Excluding the above acquisition factors, for the six months ended 30 June 2020, the Group achieved a revenue from sales of furniture products of approximately RMB31.4 million, representing an increase of approximately RMB11.5 million or approximately 57.5% as compared with the same period of 2019, which was mainly attributable to the facts that:

(i) the Group started to reduce gross profit of the projects since the end of the previous year to improve its competitiveness and achieved certain results, consolidating the market share of traditional sales provinces such as Sichuan province, Chongqing city and Guizhou province. Revenues from the above regions increased by approximately RMB3.2 million or 17.9% as compared to the same period of the previous year;

(ii) a revenue of approximately RMB4.8 million achieved from a newly contracted financial institution customer in Guangdong province; and

(iii) the revenue of Chongqing Branch Office was approximately RMB5.1 million for the six months ended 30 June 2020, representing an increase of approximately RMB3.2 million or 160.2% as compared to the same period of the previous year.

Cost of sales

Cost of sales mainly comprised (i) raw materials used for production; (ii) cost of goods purchased; (iii) labour costs; (iv) production overheads such as depreciation, utilities bills and maintenance fee; and (v) rental cost and electricity cost of storage rack for data centre business. For the six months ended 30 June 2020, the Group's cost of sales amounted to approximately RMB33.6 million, representing an increase of approximately RMB20.1 million or approximately 148.6% from approximately RMB13.5 million for the same period of the last year. Among which, Polyqueue Limited, newly acquired by the Group, incurred a cost of approximately RMB7.5 million from the Acquisition Date to 30 June 2020. Excluding the above factor, the cost of sales for the furniture business for the six months ended 30 June 2020 was approximately RMB26.1 million, representing an increase of approximately RMB12.6 million or approximately 93.0% as compared to the same period of the previous year. The cost of sales increased with the increase in sales. However, gross profit margin decreased significantly due to the fact that the increase in cost of sales outweighed the increase in revenue. Analysis was done based on the cost of sales, among them (i) an increase in the cost of raw materials used and cost of goods purchased of approximately RMB11.1 million; (ii) an increase in salary of production staff of approximately RMB0.7 million; and (iii) an increase in other production expenses of approximately RMB0.8 million.

Gross profit

Gross profit increased from approximately RMB6.4 million for the same period of the last year to approximately RMB9.6 million for the six months ended 30 June 2020. Among which, Polyqueue Limited, newly acquired by the Group, achieved gross profit of approximately RMB4.4 million from the Acquisition Date to 30 June 2020. Excluding the above factor, gross profit decreased approximately 17.9% year-on-year, while gross profit margin from furniture decreased from approximately 32.1% for the same period of the last year to approximately 22.3% for the six months ended 30 June 2020. The decrease in gross profit margin was mainly attributable to (i) the overall weakened demand for furniture business and increasing market competition, the Group decided to improve the hit rate in biddings by appropriately reducing gross profit of the projects and other measures; (ii) under the impact of novel coronavirus epidemic, staff cost of the Company increased by approximately RMB0.7 million as compared with the same period of the last year; and (iii) an increase in other production expenses of approximately RMB0.8 million.

Selling and distribution expenses

For the six months ended 30 June 2020, the Group's selling and distribution expenses amounted to approximately RMB4.4 million, representing an increase of approximately 73.0% from approximately RMB2.5 million for the same period of the last year. Among which, Polyqueue Limited, newly acquired by the Group, incurred selling expenses of approximately RMB0.2 million from the Acquisition Date to 30 June 2020. Excluding the above factor, the selling and distribution expenses increased by approximately 65.2% year-on-year. Such increase was mainly because the installation and handling fees, loading and unloading expenses and travel expenses incurred during the reporting period significantly increased from the same period of the last year since the Company tried to deliver customer orders as schedule under the impact of novel coronavirus epidemic.

Administrative and other expenses

For the six months ended 30 June 2020, the Group's administrative and other expenses amounted to approximately RMB11.3 million, representing an increase of approximately 73.0% from approximately RMB6.5 million for the same period of the last year. Among which, Polyqueue Limited, newly acquired by the Group, incurred administrative and other expenses of approximately RMB2.3 million from the Acquisition Date to 30 June 2020. Excluding the above factor, the administrative and other expenses increased by approximately 38.3% year-on-year. Such increase was mainly attributable to (i) the amortisation of intangible assets of approximately RMB2.5 million incurred from the acquisition of Polyqueue Limited; (ii) the addition of legal professional charges of approximately RMB0.6 million in respect of the acquisition of Polyqueue Limited; (iii) the increase in loss allowances for trade receivables of the Group of approximately RMB0.5 million; (iv) the significant increase in purchase of epidemic prevention materials and employee welfare expenses due to the novel coronavirus epidemic; and (v) the significant decrease in innovative research and development expenses, social pension insurance and land use tax as compared to the same period of the last year, offsetting the increase in management costs.

Finance costs

For the six months ended 30 June 2020, the Group's finance costs amounted to approximately RMB2.3 million while there was no finance cost for the same period of the last year. Among which, Polyqueue Limited, newly acquired by the Group, incurred finance cost of approximately RMB1.2 million from the Acquisition Date to 30 June 2020. It was mainly due to the adoption of new HKFRS 16 for leases to recognise lease commitments as liabilities and amortise as interest expenses during the lease term. Excluding the above factor, the increase in the Group's finance costs was mainly attributable to the interest of approximately RMB0.8 million generated from the working capital loans obtained from China CITIC Bank on 10 January 2020 and interests on convertible bonds payable of approximately RMB0.3 million.

Income tax expense

For the six months ended 30 June 2020, the Group's income tax credit was approximately RMB0.16 million, while the income tax expense was approximately RMB0.07 million for the same period of the last year. Among which, Polyqueue Limited, newly acquired by the Group, derived profits but was not required to pay income tax due to the compensation for the loss for the previous years. The income tax credit for the year was due to (i) the Group was not subject to income tax as it incurred loss during the respective period; and (ii) deferred tax credit in respect of fair value adjustment arising from the acquisition of a subsidiary in prior year.

LIQUIDITY AND FINANCIAL RESOURCES

For the six months ended 30 June 2020, the Group financed its operations by internally generated cash flow and net proceeds from the placing of new shares under the general mandate. As at 30 June 2020, the Group had net current assets of approximately RMB102.0 million (31 December 2019: approximately RMB107.2 million) including bank balances and cash of approximately RMB68.4 million (31 December 2019: approximately RMB49.1 million). As at 30 June 2020, the Group's outstanding interest-bearing bank loan was RMB30.0 million (31 December 2019: no outstanding interest-bearing bank loan). As at 30 June 2020, the Group's current ratio (defined as the ratio of current assets to current liabilities) was approximately 2.6 (31 December 2019: approximately 7.7).

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

As at 30 June 2020, the Group's total equity attributable to the owners of the Company amounted to approximately RMB195.7 million (31 December 2019: approximately RMB168.4 million). The Group's equity attributable to the owners of the Company includes share capital and capital reserve.

GEARING RATIO

As at 30 June 2020, the Group's gearing ratio (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)) amounted to approximately 0.44 (31 December 2019: approximately 0.03).

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any material contingent liabilities.

SIGNIFICANT INVESTMENTS HELD

For the six months ended 30 June 2020, save for the matters in relation to the completion of acquisition 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 significant investments held.

FOREIGN EXCHANGE EXPOSURE

As the Group conducts its business transactions principally in RMB, the Group's exposure to foreign currency fluctuations is minimal. The Group was not a party to any foreign exchange hedging instrument as at 30 June 2020. However, the Group will review and monitor from time to time the risk relating to foreign exchange.

MANAGEMENT DISCUSSION AND ANALYSIS

INFORMATION ON EMPLOYEES

As at 30 June 2020, the Group engaged a total of 192 employees (same period of 2019: 211) including the Directors. For the six months ended 30 June 2020, total staff costs amounted to approximately RMB5.2 million (same period of 2019: approximately RMB5.1 million). Remuneration (including employees' benefits) is maintained at an attractive level and reviewed on a periodic basis. Employees' salary and relevant benefits are determined on the basis of performance, qualification, experience, positions and the Group's business performance.

PLEDGE OF ASSETS

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.

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).

For the six months ended 30 June 2020, 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 as of 30 June 2020**
	HK$ million	HK$ million
Procurement of raw materials required for production	12.92	8.54
Increase in liquidity of the Group to provide customers with a longer credit period	7.07	7.07
Used as working capital of the Group to fulfill its obligations such as paying professional fees	10.77	6.83
	30.76	22.44

As at the date of this announcement, under the impact of recent novel coronavirus epidemic, the intended use of part of the proceeds for procurement of raw materials required for production has been delayed from the original plan and is expected to utilise by the end of this year. The above net proceeds have not been utilised and have been deposited as interest-bearing deposits in licensed banks in Hong Kong and the PRC.

OTHER INFORMATION

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the Prospectus and the matters in relation to the completion of acquisition 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 as at 30 June 2020 have other future plans for material investments or capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

For the six months ended 30 June 2020, the Group did not have any material acquisitions nor disposals of subsidiaries and affiliated companies save for those reorganisation activities done for the purpose of listing of the Company as set out in the paragraph headed "Reorganisation" under the section headed "History, Reorganisation and Corporate Structure" in the Prospectus and the matters in relation to the completion of acquisition of the entire issued share capital of Polyqueue Limited.

SHARE OPTION SCHEME

The share option scheme (the "**Share Option Scheme**") was approved and conditionally adopted by the Board and shareholders of the Company by way of written resolutions on 19 December 2016. As of 30 June 2020, no share option was granted, exercised, cancelled or lapsed pursuant to the Share Option Scheme.

OTHER INFORMATION

AUDIT COMMITTEE

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

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

The Audit Committee has reviewed the Group's unaudited consolidated financial statements for the six months ended 30 June 2020. The Audit Committee is of the view that the unaudited consolidated results are in compliance with the applicable accounting standards, the GEM Listing Rules and other legal requirements, and that the sufficient disclosure was made.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct ("**Code of Conduct**") regarding securities transactions by the Directors. The Company has confirmed, having made specific enquiry of the Directors, that all the Directors have complied with the Code of Conduct throughout the six months ended 30 June 2020 and up to the date of this announcement.

NO CHANGE IN INFORMATION OF DIRECTORS

For the six months ended 30 June 2020, there was no change in the information of Directors required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period from the Listing Date to 30 June 2020, 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.

OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

The Group is committed to ensuring high standards of corporate governance and business practices. The Company's corporate governance practices are based on the Corporate Governance Code (the "**CG Code**") as set out in Appendix 15 of the GEM Listing Rules. During the period from the Listing Date to 30 June 2020, the Company has complied with the applicable code provisions of the CG Code.

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

Hong Kong, 12 August 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 as non-executive Director; and Mr. Chan Wing Kit, Ms. Cao Shao Mu and Mr. Kwok Sui Hung as independent non-executive Directors.

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