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

2020

Third Quarterly Report

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This report, for which the Directors (the "**Directors**") of Zhi Sheng Group Holdings Limited (the "**Company**") collectively and individually accept full 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 report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

FINANCIAL RESULTS

The board of Directors of the Company (the "**Board**") is pleased to present the unaudited condensed consolidated results of the Group for the three months and the nine months ended 30 September 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 NINE MONTHS ENDED 30 SEPTEMBER 2020

		For the three months ended 30 September		For the nine months ended 30 September	
		2020	2019	**2020**	2019
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue	3	**15,180**	8,227	**58,431**	28,124
Cost of sales		**(12,401)**	(5,844)	**(46,015)**	(19,363)
Gross profit		**2,779**	2,383	**12,416**	8,761
Other income	4	**896**	33	**2,332**	648
Selling and distribution expenses		**(2,203)**	(1,929)	**(6,584)**	(4,462)
Administrative and other expenses		**(8,476)**	(4,316)	**(19,797)**	(10,859)
Finance costs	5	**(1,544)**	–	**(3,881)**	–
Loss before income tax		**(8,548)**	(3,829)	**(15,514)**	(5,912)
Income tax credit/(expense)	6	**(34)**	249	**130**	179
Loss for the period attributable to the owners of the Company		**(8,582)**	(3,580)	**(15,384)**	(5,733)
Other comprehensive income/(loss) for the period:					
Item that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations		**(483)**	728	**(278)**	690
Total comprehensive loss for the period attributable to the owners of the Company		**(9,065)**	(2,852)	**(15,662)**	(5,043)
Loss per share	8				
— Basic and diluted (RMB cents)		**(0.95)**	(0.48)	**(1.71)**	(0.80)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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	–	–	–	–	–	–	(5,733)	(5,733)
Other comprehensive income:								
Exchange difference arising on translating of foreign operations	–	–	–	–	–	690	–	690
Total comprehensive expense for the period	–	–	–	–	–	690	(5,733)	(5,043)
Issue of shares	1,177	25,837	–	–	–	–	–	27,014
As at 30 September 2019 (Unaudited)	7,100	163,826	–	(11,131)	4,158	(8,281)	23,741	179,413
As at 1 January 2020 (Audited)	**7,100**	**163,826**	**–**	**(11,131)**	**4,158**	**(8,579)**	**13,003**	**168,377**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(15,384)**	**(15,384)**
Other comprehensive (loss):								
Exchange difference arising on translating of foreign operations	**–**	**–**	**–**	**–**	**–**	**(278)**	**–**	**(278)**
Total comprehensive expense for the period	**–**	**–**	**–**	**–**	**–**	**(278)**	**(15,384)**	**(15,662)**
Issue of shares *(Note 9)*	**917**	**23,370**	**–**	**–**	**–**	**–**	**–**	**24,287**
Issue of convertible bond *(Note 9)*	**–**	**–**	**9,339**	**–**	**–**	**–**	**–**	**9,339**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**258**	**–**	**(258)**	**–**
As at 30 September 2020 (Unaudited)	**8,017**	**187,196**	**9,339**	**(11,131)**	**4,416**	**(8,857)**	**(2,639)**	**186,341**

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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 9, 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 nine months ended 30 September 2019 and 2020 have been prepared in accordance with the Hong Kong Accounting Standard 34 ("**HKAS34**") 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 nine months ended 30 September 2019, the Group has only one reportable segment, which is manufacture and sale of furniture products. For the nine months ended 30 September 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 nine months ended 30 September 2020:

	Manufacture and sale of furniture products RMB'000	Data centre RMB'000	Consolidated RMB'000
Revenue			
Revenue from external customers	39,953	18,478	58,431
Reportable segment revenue	39,953	18,478	58,431
Reportable segment results	(10,334)	1,407	(8,927)
Unallocated:			
Corporate and other unallocated expenses			(6,152)
Interest income			4
Finance costs			(439)
Loss before income tax			(15,514)

3. REVENUE AND SEGMENT INFORMATION (Continued)

Other information

	Manufacture and sale of furniture products RMB'000	Data centre RMB'000	Unallocated RMB'000	Consolidated RMB'000
Purchase of property, plant and equipment	34	–	–	34
Bank interest income	31	10	4	45
Interest income on other receivables	1,441	–	–	1,441
Interest income arising from unwinding contract assets with significant financing component	151	–	–	151
Fair value changes on financial assets at fair value through profit or loss	128	–	–	128
Dividend income from financial assets at fair value through profit or loss	333	–	–	333
Finance costs	(1,269)	(2,173)	(439)	(3,881)
Depreciation of property, plant and equipment	(2,796)	–	–	(2,796)
Depreciation of right-of-use assets	(917)	(8,668)	–	(9,585)
Impairment loss on trade receivables	(341)	(613)	–	(954)
Amortisation of intangible assets	–	–	(3,817)	(3,817)
Write-down of inventories to net realisable value	(1,286)	–	–	(1,286)

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

	For the nine months ended 30 September	
	2020	2019
	RMB'000	RMB'000
Customer A	**6,199**	–

Customer A is from the data centre segment. Since the Group completed the acquisition of Polyqueue Limited on 15 January 2020, there is no need to present the corresponding revenue information for 2019 of customer A.

Revenue disaggregation

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

	For the nine months ended 30 September	
	2020	2019
	RMB'000	RMB'000
Revenue from contracts with customers in accordance with HKFRS 15		
Sale of furniture products	**39,953**	28,124
Information technology management service	**1,926**	–
Provision of internet access connection service	**642**	–
Excess electricity usage	**720**	–
	43,241	28,124
Revenue from other sources		
Rental of server rack	**15,190**	–
	58,431	28,124

3. REVENUE AND SEGMENT INFORMATION (Continued)

Revenue disaggregation (Continued)

	For the nine months ended 30 September	
	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	**39,953**	28,124
Over time	**3,288**	–
	43,241	28,124

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 September		For the nine months ended 30 September	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Sale of furniture products	**8,622**	8,227	**39,953**	28,124
Data centre business	**6,558**	–	**18,478**	–
	15,180	8,227	**58,431**	28,124

4. OTHER INCOME

	For the three months ended 30 September		For the nine months ended 30 September	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Interest income arising from unwinding contract assets with significant financing components	**61**	(14)	**151**	452
Bank interest income	**13**	2	**45**	146
Interest income from other receivables	**525**	–	**1,441**	–
Dividend income from financial assets at fair value through profit or loss	**172**	–	**333**	–
Fair value changes on financial assets at fair value through profit or loss	**39**	–	**128**	–
Subsidy income and others	**86**	45	**234**	50
	896	33	**2,332**	648

5. FINANCE COSTS

	For the three months ended 30 September		For the nine months ended 30 September	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Interest expense on bank borrowings	**434**	–	**1,202**	–
Interest expense on lease liabilities	**956**	–	**2,241**	–
Interest expense on convertible bond	**154**	–	**438**	–
	1,544	–	**3,881**	–

6. INCOME TAX (CREDIT)/EXPENSE

	For the three months ended 30 September		For the nine months ended 30 September	
	2020	2019	**2020**	2019
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Current tax				
— Tax for the period	**–**	(189)	**–**	–
Deferred tax				
— Current period	**34**	(60)	**(130)**	(179)
	34	(249)	**(130)**	(179)

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 nine months ended 30 September 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.

7. DIVIDENDS

The Board does not recommend the payment of a quarterly dividend for the nine months ended 30 September 2020 (same period in 2019: Nil). No shareholder has agreed to waive dividends.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2020

8. 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 901,676,399 and 718,102,564 ordinary shares in issue for the nine months ended 30 September 2020 and 2019.

	For the three months ended 30 September		For the nine months ended 30 September	
	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	**(8,582)**	(3,580)	**(15,384)**	(5,733)
	'000 shares	'000 shares	**'000 shares**	'000 shares
Number of shares used to calculate the basic loss per share	**901,676**	718,103	**901,676**	718,103

Note: The calculation of the basic loss per share attributable to the owners of the Company is based on the loss for the nine months ended 30 September 2020 of approximately RMB15.384 million (same period of the previous year: a loss of approximately RMB5.733 million), and on the weighted average number of 901,676,399 ordinary shares of the Company in issue (718,102,564 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 nine months ended 30 September 2020 and 2019. Accordingly, the diluted loss per share presented are the same as basic loss per share.

9. 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.

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

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.

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

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

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 September 2020, Polyqueue Limited contributed approximately RMB18.5 million to the Group's revenue and approximately RMB1.4 million to the Group's profits.

10. EVENTS AFTER REPORTING PERIOD

On 14 October 2020, Polyqueue Limited, being a wholly owned subsidiary of the Company, entered into a non-legally binding term sheet with other parties in relation to the proposed formation of a joint venture for the purpose of establishment, operation and/or investment in the data centre business in the PRC. The term sheet is not legally binding and may or may not lead to the entering into of any definitive agreement. Details have been set out in the Company's announcement dated 14 October 2020.

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 three quarters 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 late March, the Company obtained obviously less new orders, which is expected to have a significant impact on the performance of the future 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. The Company is actively seeking measures to source new customers in order to improve its performance. From the Acquisition Date to 30 September 2020, Polyqueue Limited contributed approximately RMB18.5 million to the Group's revenue and approximately RMB1.4 million to the profits.

For the nine months ended 30 September 2020, the Group recorded a revenue of approximately RMB58.4 million, representing an increase of approximately RMB30.3 million or approximately 107.8% as compared to the same period of the previous year. For the nine months ended 30 September 2020, the Group recorded a loss of approximately RMB15.4 million, as compared with the loss of approximately RMB5.7 million for the same period of 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. Meanwhile, due to the novel coronavirus pneumonia epidemic situation for the year, the Group secured more orders at lower product prices to maintain effective operations, resulting in a substantial decrease in the Company's gross profit by approximately 35.4%. Meanwhile, the Group's selling and distribution expenses increased by 47.6% from the same period of 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. The administrative and other expenses also increased by 82.3% from the same period of last year, mainly attributable 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 losses arising from the disposal of inventories by the Group and the increase in bad debt loss allowances for receivables; and (4) the significant increase in purchase of epidemic prevention materials and employee welfare expenses. The finance costs incurred by the new bank working capital loan of RMB30 million and the interest expenses from the new convertible bonds during the year also led to the further increase in the Company's losses.

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. 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.

Although the novel coronavirus epidemic situation is basically under control in the PRC, the foreign epidemic situation is still very severe. The entire furniture market is still very weak. To maintain effective operations, the Company is seeking more orders with lower product prices. As of 30 September 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 RMB30.8 million. The Group operates its furniture business as usual, and the introduction of data centre 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.

MANAGEMENT DISCUSSION AND ANALYSIS

According to iResearch, demand for carrier-neutral data center services in China estimated to increase by a compound annual growth rate of 31.8% in the next four years. We have over seven years in China data center experience. Currently we have less than 1,000 square meters of area in service. We expect our area in service to reach more than 150,000 square meters in three years' time. Data center business could be capital intensive. We will do our best to keep a light balance sheet. We will work with banks, investment funds and other investors minimize of investment costs. We will mainly take a management role in all projects. The role includes planning and sourcing of new data centers, development of sites, securing customers commitments, providing our collocation and managed services to our customers, and maintaining high levels of service and customer satisfaction to develop and maintain long term relationships with our customers.

The Group is committed to enhancing its market competitiveness, creating sustainable returns and maximizing wealth for shareholders.

FINANCIAL REVIEW

Revenue

For the nine months ended 30 September 2020, the Group achieved a revenue of approximately RMB58.4 million, representing an increase of approximately RMB30.3 million or approximately 107.8% as compared to the same period of last 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 September 2020, revenue generated was approximately RMB18.5 million.

Excluding the above acquisition factor, for the nine months ended 30 September 2020, the Group achieved a revenue from sales of furniture products of approximately RMB39.9 million, representing an increase of approximately RMB11.8 million or approximately 42.1% as compared with the same period of last year, which was mainly attributable to the facts that:

(i) the Group started to reduce gross profit of projects since the end of last year to improve its competitiveness and secure its market share in traditional sales provinces such as Sichuan province, Chongqing city and Guizhou province. Meanwhile, due to the novel coronavirus epidemic, the Group sought more orders at lower product prices to maintain effective operations. Revenues from the above regions increased by approximately RMB4.7 million or 19.6% as compared to the same period of last 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 RMB6.0 million for the nine months ended 30 September 2020, representing an increase of approximately RMB2.3 million or 64.4% as compared to the same period of last year.

Cost of sales

For the nine months ended 30 September 2020, the Group's cost of sales amounted to approximately RMB46.0 million, representing an increase of approximately RMB26.6 million or approximately 137.6% from approximately RMB19.4 million for the same period of last year. Among which, Polyqueue Limited, newly acquired by the Group, incurred a cost of approximately RMB11.7 million from the Acquisition Date to 30 September 2020. Excluding the above factor, the cost of sales for the furniture business for the nine months ended 30 September 2020 was approximately RMB34.3 million, representing an increase of approximately RMB14.9 million or approximately 77.1% as compared to the same period of last 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 largely 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 RMB13.1 million; (ii) an increase in salary of production staff of approximately RMB0.8 million; and (iii) an increase in other production expenses of approximately RMB1.0 million.

Gross profit

Gross profit increased from approximately RMB8.8 million for the same period of last year to approximately RMB12.4 million for the nine months ended 30 September 2020. Among which, Polyqueue Limited, newly acquired by the Group, achieved gross profit of approximately RMB6.8 million from the Acquisition Date to 30 September 2020. Excluding the above factor, gross profit decreased approximately 35.4% year-on-year, while gross profit margin from furniture decreased from approximately 31.2% for the same period of last year to approximately 14.2% for the nine months ended 30 September 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 improved its competitiveness by reducing gross profit of the projects. Meanwhile, under the impact of novel coronavirus epidemic, the Group sought more orders at lower product prices to maintain effective operations; (ii) under the impact of novel coronavirus epidemic, staff cost of the Company increased by approximately RMB0.8 million as compared with the same period of last year; and (iii) an increase in other production expenses of approximately RMB1.0 million.

Selling and distribution expenses

For the nine months ended 30 September 2020, the Group's selling and distribution expenses amounted to approximately RMB6.6 million, representing an increase of approximately 47.6% from approximately RMB4.5 million for the same period of last year. Among which, Polyqueue Limited, newly acquired by the Group, incurred selling expenses of approximately RMB0.3 million from the Acquisition Date to 30 September 2020. Excluding the above factor, the selling and distribution expenses increased by approximately 40.8% year-on-year. Such increase was mainly because the installation and handling fees, loading and unloading expenses and travel expenses incurred during the period significantly increased from the same period of 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 nine months ended 30 September 2020, the Group's administrative and other expenses amounted to approximately RMB19.8 million, representing an increase of approximately 82.3% from approximately RMB10.9 million for the same period of last year. Among which, Polyqueue Limited, newly acquired by the Group, incurred administrative and other expenses of approximately RMB3.0 million from the Acquisition Date to 30 September 2020. Moreover, the administrative and other expenses increased by approximately 54.3% year-on-year. Such increase was mainly attributable to (i) the amortisation of intangible assets of approximately RMB3.8 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 losses arising from the disposal of inventories by the Group of approximately RMB1.3 million and the increase in bad debt loss allowances for trade receivables of approximately RMB0.2 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 rents as compared to the same period of last year, offsetting the increase in management costs.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

For the nine months ended 30 September 2020, the Group's finance costs amounted to approximately RMB3.9 million while there was no finance cost for the same period of last year. Among which, Polyqueue Limited, newly acquired by the Group, incurred finance cost of approximately RMB2.2 million from the Acquisition Date to 30 September 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 RMB1.2 million generated from the working capital loans obtained from China CITIC Bank on 10 January 2020 and interests on convertible bonds payable of approximately RMB0.4 million.

Income tax expense

For the nine months ended 30 September 2020, the Group's income tax credit was approximately RMB0.1 million, while the income tax credit was approximately RMB0.2 million for the same period of last year. Among which, Polyqueue Limited, newly acquired by the Group, derived profits but was not required to pay income tax due to loss utilisation for the previous years. The income tax credit of the Group 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 asset fair value adjustment arising from acquisition of subsidiary in prior year.

PLEDGE OF ASSETS

As at the date of this report, 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.

OTHER INFORMATION

DISCLOSURE OF INTERESTS

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

As at 30 September 2020, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests or short positions which they were taken or deemed to have under such provisions of the Securities and Futures Ordinance), or (ii) to be entered into the register required to be kept therein, pursuant to Section 352 of the Securities and Futures Ordinance, or (iii) to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to the required standard of dealings by directors were as follows:

Name of Director	Capacity/ Nature of interest	Number of ordinary shares held/ interested	Percentage of shareholdings
Mr. Yi Cong	Interest of a spouse *(Note)*	116,580,000 (Long position)	12.85%

Note: Mr. Yi Cong is the spouse of Ms. Zhang Gui Hong. Accordingly, Mr. Yi Cong is deemed to be interested in all the shares which Ms. Zhang Gui Hong is interested for the purpose of Part XV of the Securities and Futures Ordinance.

Save as disclosed above, as at 30 September 2020, none of the Directors nor the chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests and/or short positions which they were taken or deemed to have under such provisions of the Securities and Futures Ordinance) or (ii) to be entered into the register required to be kept therein, pursuant to section 352 of the Securities and Futures Ordinance, or (iii) to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to the required standard of dealings by directors.

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

As at 30 September 2020, the following persons (not being a Director or chief executive of the Company) had or were deemed to have interests in shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance and the GEM Listing Rules.

Name of shareholder	Capacity/ Nature of interest	Number of ordinary shares held/ interested	Percentage of shareholdings
Sun Universal Limited ("**Sun Universal**")	Beneficial owner	245,300,400 (Long position)	27.04%
Mr. Ma Gary Ming Fai ("**Mr. Ma**")	Interest in a controlled corporation *(Note 1)*	245,300,400 (Long position)	27.04%
Ms. Hung Fung King Margaret	Interest of spouse *(Note 2)*	245,300,400 (Long position)	27.04%
Brilliant Talent Global Limited	Beneficial owner *(Note 3)*	116,580,000 (Long position)	12.85%
Ms. Zhang Gui Hong	Interest in a controlled corporation *(Note 3)*	116,580,000 (Long position)	12.85%

Note:

1. Such shares are held by Sun Universal Limited and its 100% equity interest is owned by Mr. Ma. Mr. Ma is deemed to be interested in the shares held by Sun Universal under Part XV of the Securities and Futures Ordinance.

2. Ms. Hung Fung King Margaret is the spouse of Mr. Ma. Accordingly, Ms. Hung Fung King Margaret is deemed to be interested in the shares held by Mr. Ma for the purpose of Part XV of the Securities and Futures Ordinance.

3. The entire issued share capital of Brilliant Talent Global Limited is legally and beneficially owned by Ms. Zhang Gui Hong. Ms. Zhang Gui Hong is deemed to be interested in the shares held by Brilliant Talent Global Limited for the purpose of Part XV of the Securities and Futures Ordinance.

Save as disclosed above, as at 30 September 2020, the Company had not been notified by any person who had interests or short positions in the shares, underlying shares or debentures of the Company required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

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 September 2020, no share option was granted, exercised, cancelled or lapsed pursuant to the Share Option Scheme.

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.

OTHER INFORMATION

The Audit Committee has reviewed the Group's unaudited consolidated financial statements for the nine months ended 30 September 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period from the Listing Date to 30 September 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.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to ensuring high standards of corporate governance and business practices. The Company's corporate governance practices are based on the Corporate Governance Code (the "**CG Code**") as set out in Appendix 15 of the GEM Listing Rules. During the period from the Listing Date to 30 September 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, 11 November 2020

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