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

2019

Interim Report

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

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

This report, for which the directors (the "**Directors**") of Zhi Sheng Group Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") 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. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

FINANCIAL RESULTS

SUMMARY

— The Group recorded revenue of approximately RMB19.9 million for the six months ended 30 June 2019, representing a decrease of approximately 54.8% as compared with the six months ended 30 June 2018.

— The Group recorded a loss of approximately RMB2.2 million for the six months ended 30 June 2019, and a profit of approximately RMB6.4 million for the six months ended 30 June 2018. The loss was mainly attributable to the weak overall economy and the prolonged configuration cycle of the customer, resulting in a significant decrease in revenue and gross profit of the Group for the six months ended 30 June 2019, over 50% over the same period in 2018; while administrative and other expenses increased to a certain extent compared to the same period in 2018.

— The basic loss per share for the six months ended 30 June 2019 was approximately RMB0.32 cent, while the basic earnings per share for the six months ended 30 June 2018 was approximately RMB0.96 cent.

FINANCIAL RESULTS

The board of Directors of the Company (the "**Board**") is pleased to present the unaudited condensed consolidated results of the Group for the three months and the six months ended 30 June 2019, together with the comparative figures for the three months and the six months ended 30 June 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 JUNE 2019

		For the three months ended 30 June		For the six months ended 30 June	
		2019	2018	**2019**	2018
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue	3	**12,156**	19,879	**19,897**	44,042
Cost of sales		**(8,204)**	(12,686)	**(13,519)**	(27,481)
Gross Profit		**3,952**	7,193	**6,378**	16,561
Other income	4	**544**	86	**615**	147
Selling and distribution expenses		**(1,264)**	(1,023)	**(2,533)**	(2,200)
Administrative and other expenses		**(3,781)**	(3,296)	**(6,543)**	(5,658)
Finance costs	5	**–**	–	**–**	–
Profit before income tax		**(549)**	2,960	**(2,083)**	8,850
Income tax expense	6	**(129)**	(865)	**(70)**	(2,430)
Profit/(loss) for the period attributable to the owners of the Company		**(678)**	2,095	**(2,153)**	6,420
Other comprehensive income/(loss) for the period:					
Item that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations		**(56)**	16	**(38)**	(173)
Total comprehensive income/(loss) for the period attributable to the owners of the Company		**(734)**	2,111	**(2,191)**	6,247
Earnings/(loss) per share	8				
— Basic and diluted (RMB cents)		**(0.10)**	0.31	**(0.32)**	0.96

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**53,081**	55,104
Payments for leasehold land held for own use under operating leases		**14,036**	14,206
Total non-current assets		**67,117**	69,310
Current assets			
Payments for leasehold land held for own use under operating leases		**230**	230
Inventories		**20,644**	17,632
Contract assets		**4,563**	4,766
Trade and other receivables	*9*	**66,522**	48,949
Cash and cash equivalents		**44,338**	37,438
Total current assets		**136,297**	109,015
Total assets		**203,414**	178,325
Current liabilities			
Contract liabilities		**1,249**	1,074
Trade and other payables	*10*	**13,470**	12,891
Tax payable		**1,020**	1,391
Total current liabilities		**15,739**	15,356
Net current assets		**120,558**	93,659
Total assets less current liabilities		**187,675**	162,969
Non-current liabilities			
Deferred tax liabilities		**5,341**	5,458
Total non-current liabilities		**5,341**	5,458
Total liabilities		**21,080**	20,814
NET ASSETS		**182,334**	157,511

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Notes	**30 June 2019 RMB'000 (Unaudited)**	31 December 2018 RMB'000 (Audited)
EQUITY			
Equity attributable to owners of the Company			
Share capital		**7,100**	5,923
Reserves		**175,234**	151,588
TOTAL EQUITY		**182,334**	157,511

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Share capital RMB'000	Share premium 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 2018 (Audited)	5,923	137,989	(11,131)	3,343	(9,013)	25,379	152,490
Profit for the period	–	–	–	–	–	6,420	6,420
Other comprehensive income: Exchange difference arising on translating of foreign operations	–	–	–	–	(173)	–	(173)
Total comprehensive income for the period	–	–	–	–	(173)	6,420	6,247
Transfer to statutory reserve	–	–	–	757	–	(757)	–
As at 30 June 2018 (Unaudited)	5,923	137,989	(11,131)	4,100	(9,186)	31,042	158,737
As at 1 January 2019 (Audited)	5,923	137,989	(11,131)	4,158	(8,971)	29,543	157,511
Profit for the period	–	–	–	–	–	(2,153)	(2,153)
Other comprehensive income: Exchange difference arising on translating of foreign operations	–	–	–	–	(38)	–	(38)
Total comprehensive income for the period	–	–	–	–	(38)	(2,153)	(2,191)
Issue of shares *(Note)*	1,177	26,480	–	–	–	–	27,657
Transaction costs attributable to the issue of shares	–	(643)	–	–	–	–	(643)
Transfer to statutory reserve	–	–	–	57	–	(57)	–
As at 30 June 2019 (Unaudited)	7,100	163,826	(11,131)	4,215	(9,009)	27,333	182,334

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019

Note:

On 25 June 2019, the Company placed 134,000,000 new shares under a general mandate at HK$0.235 per share for a total gross proceeds of HK$31,490,000 (the "**Placing under the General Mandate**"). 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 the completion of the Placing under the General Mandate. 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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before income tax	**(2,083)**	8,850
Adjustments for:		
Amortisation of payments for leasehold land held for own use under operating leases	**170**	170
Depreciation of property, plant and equipment	**2,023**	2,100
Write-down of inventories to net realizable value	**329**	* (265)
Impairment loss on trade receivables	**44**	* 139
Interest income	**(144)**	(32)
Interest income from the termination of contract assets with significant financing components	**(466)**	* (77)
Finance costs	**–**	–
Operating profit before working capital changes	**(127)**	* 10,885
(Increase)/decrease in inventories	**(3,341)**	* (2,307)
Increase in contract assets	**(254)**	* (1,032)
(Increase)/decrease in trade and other receivables	**(16,694)**	* (22,180)
(Increase)/decrease in contract liabilities	**175**	* (3,881)
Decrease in trade and other payables	**579**	* 395
Cash generated from/(used in) operations	**(19,662)**	(18,120)
Income tax paid	**(558)**	(3,255)
Interest received	**144**	32
Interest paid	**–**	–
Net cash generated from/(used in) operating activities	**(20,076)**	(21,343)
Cash flows from investing activities		
Purchases of property, plant and equipment	**–**	(1,154)
Net cash used in investing activities	**–**	(1,154)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash flows from financing activities		
Proceeds from issue of shares due to placing	**27,657**	–
Payment of listing cost of new shares	**(643)**	–
Net cash from financing activities	**27,014**	–
Net (decrease)/increase in cash and cash equivalents	**6,938**	(22,497)
Cash and cash equivalents at beginning of year	**37,438**	36,428
Effect of foreign exchange rate changes on cash and cash equivalents	**(38)**	(173)
Cash and cash equivalents at end of reporting period	**44,338**	13,758
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**44,338**	13,758

*Remarks: Figures with * in the unaudited condensed consolidated cash flow statement for the six months ended 30 June 2018 are categorized and adjusted in accordance with the disclosure requirement by HKFRS 9 and 15.*

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

1. CORPORATE INFORMATION

The Company was incorporated in 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, Tsim Sha Tsui, Kowloon, Hong Kong and its headquarter is at 3/F, 222 Tianren Road, Gaoxin District, Chengdu City, Sichuan Province, the Peoples' Republic of China (the "**PRC**").

The Company is an investment holding company. The Group is principally engaged in manufacture and sales of office furniture products in the PRC. The shares of the Company were listed on the GEM on 20 January 2017.

2. BASIS OF PREPARATION

The Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2018 and 2019 have been prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and disclosure requirements of the GEM.

Other than the adoption of the new and revised HKFRSs during the accounting period from 1 January 2019, the basis of preparation and accounting policies adopted in the preparation of such unaudited condensed consolidated financial statements are the same as those followed in the preparation of the annual financial statements for the year ended 31 December 2018.

The application of the new and revised HKFRSs has no material impact on such unaudited condensed consolidated financial statements. The Group did not adopt the new and revised HKFRSs which had been issued but had not yet entered into force during the current accounting period of the Group.

The unaudited condensed consolidated financial statements are prepared on the historical cost basis.

3. REVENUE

An analysis of the Group's revenue is as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Sale of office furniture products	**12,156**	19,879	**19,897**	44,042

4. OTHER INCOME

	For the three months ended 30 June		For the six months ended 30 June	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Interest income arising from unwinding contract assets with significant financing components	**425**	77	**466**	77
Bank interest income	**114**	9	**144**	32
Grants income and others	**5**	–	**5**	38
	544	86	**615**	147

5. FINANCE COSTS

	For the three months ended 30 June		For the six months ended 30 June	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Interest on bank borrowings	**–**	–	**–**	–

6. INCOME TAX EXPENSE

	For the three months ended 30 June		For the six months ended 30 June	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Current tax				
— Tax for the period	**189**	925	**189**	2,549
Deferred tax				
— Current period	**(60)**	(60)	**(119)**	(119)
	129	865	**70**	2,430

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 2019 and 2018.

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

7. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (2018: Nil). No shareholder has agreed to waive dividends.

8. EARNINGS/(LOSS) PER SHARE

The basic earnings/(loss) per share is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of 804,000,000 shares and 670,000,000 shares of the Company in issue for the three months and the six months ended 30 June 2019 and 2018.

	For the three months ended 30 June		For the six months ended 30 June	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Earnings/(loss):				
The earnings/(loss) used to calculate the basic earnings/(loss) per share for six months	**(678)**	2,095	**(2,153)**	6,420

	'000 shares	'000 shares	**'000 shares**	'000 shares
Number of shares used to calculate the basic earnings/(loss) per share	**804,000**	670,000	**804,000**	670,000

Note: The calculation of the basic earnings per share attributable to the owners of the Company is based on the loss for the six months ended 30 June 2019 of approximately RMB2.153 million (for the six months ended 30 June 2018: a profit of approximately RMB6.420 million), and on the weighted average number of 804,000,000 shares of the Company in issue as of 30 June 2019 (30 June 2018: 670,000,000 shares in issue). The calculation also assumes as if the number of shares of the Company issued and outstanding immediately after the Reorganisation and the Capitalisation Issue had been issued and outstanding as of 1 January 2017. There were no potential ordinary shares in issue for the six months ended 30 June 2019 and 2018. Accordingly, the diluted earnings per share presented are the same as basic earnings per share.

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

9. TRADE AND OTHER RECEIVABLES

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Trade receivables *(Note (a))*	**15,506**	18,549
Other receivables *(Note (b))*	**4,250**	3,855
Deposits	**1,790**	1,389
Prepayments *(Note (c))*	**45,328**	25,464
	66,874	49,257
Less: loss allowances	**(352)**	(308)
	66,522	48,949

(a) Trade receivables

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Total trade receivables *(Note)*	**15,506**	18,549
Less: loss allowances	**(307)**	(263)
Trade receivables, net	**15,199**	18,286

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

9. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Trade receivables (Continued)

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.

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Within 3 months	**6,303**	7,217
More than 3 months	**9,203**	11,332
	15,506	18,549

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 2019 RMB'000	As at 31 December 2018 RMB'000
Current (not past due)	**3,124**	7,279
Less than 1 month past due	**3,109**	684
1 to 3 months past due	**1,532**	2,033
More than 3 months but less than 6 months past due	**2,977**	5,742
More than 6 months past due	**4,457**	2,548
	15,199	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.

9. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Trade receivables (Continued)

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 2019	**263**
Loss allowances recognized during the year	**44**
As at 30 June 2019	**307**

In adopting HKFRS 9, the Group has applied a simplified approach and used a provisioning 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 2019.

	Expected credit losses %	Gross carrying amount RMB'000	Lifetime expected credit losses RMB'000	Net carrying amount RMB'000
Current (not past due)	**0.0**	**3,124**	**–**	**3,124**
Less than 1 month past due	**0.1**	**3,112**	**3**	**3,109**
1 to 3 months past due	**0.5**	**1,540**	**8**	**1,532**
More than 3 months but less than 6 months past due	**2.0**	**3,038**	**61**	**2,977**
More than 6 months past due	**5.0**	**4,692**	**235**	**4,457**
		15,506	**307**	**15,199**

9. TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Other receivables

As at 30 June 2019, other receivables were normal current accounts receivable and interest receivable from independent third parties.

(c) Prepayments

As at 30 June 2019, 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 RMB9.5 million and 5.0 million, respectively, to assist the Group in fulfilling orders for major customers.

10. TRADE AND OTHER PAYABLES

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Trade payables *(Note (a))*	**3,136**	4,496
Other payables and accrued	**5,714**	3,731
Other tax payables	**4,620**	4,664
Receipt in advance *(Note)*	**–**	–
	13,470	12,891

Note: The consideration received in advance from customers has been classified as contract liabilities after the adoption of HKFRS 15.

(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:

	2019 RMB'000	2018 RMB'000
Within 3 months	**429**	459
More than 3 months	**2,707**	4,037
	3,136	4,496

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

Although China's economic GDP grew by 6.3% in the first half of this year, the impact of the "US-China trade war" continued, and China's macro economy is still facing further downward pressure. The PRC government has stipulated "No new construction of office buildings within the next 5 years, downsizing in office space, and new office furniture allocation standards to extend office furniture useful life", resulting in the reduction of government procurement of office furniture and corresponding extension of allocation cycle. Moreover, the increasingly strict environmental regulation imposed by governments at all levels in China to a certain extent increased the pressure on product cost. The above factors have presented greater challenge to the Group's development.

Affected by the above factors, the intensified domestic market competition in China and the decrease in overall demand in China, revenue achieved by the Group in the first six months of 2019 was significantly lower than that of the corresponding period of 2018, and the Group expects to face major challenges and pressures in its operations in the next one to two years. For the six months ended 30 June 2019, the Group recorded a revenue of approximately RMB19.9 million, representing a decrease of approximately RMB24.1 million or approximately 54.8% as compared with the six months ended 30 June 2018.

The significant decrease in revenue was mainly due to the non-sustainable (or one-off) nature of the sales orders of bidding customers from Guangxi Autonomous Region, Guangdong province and Jiangsu province. There were orders from the major customers in all of the above provinces during the first six months of 2018, but that did not carry over into the corresponding period of 2019. Correspondingly, this resulted in a significant decline in revenue due to the fact that the orders of several major customers that were expected to be obtained were not finally obtained due to price, cost or time factors, and failed to make up for the reduced profits of existing customers. Meanwhile, the revenue of the five southwestern provinces where the Group has traditional sales advantages (i.e. Sichuan province, Chongqing city, Tibet Autonomous Region, Guizhou province, Yunnan province) also declined year-on-year by 27.8%.

The Group recorded a loss of approximately RMB2.2 million for the six months ended 30 June 2019 as compared with a profit of approximately RMB6.4 million for the six months ended 30 June 2018. The loss was mainly attributable to the decrease of approximately 54.8% in sales for the six months ended 30 June 2019 as compared with the corresponding period in 2018, which resulted in a decrease of approximately RMB10.2 million in total gross profit. Meanwhile sales expenses and administrative expenses increased for the six months ended 30 June 2019 as compared with the corresponding period in 2018.

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

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2019, the Group generated revenue of approximately RMB19.9 million, representing a decrease of approximately 54.8% as compared with the six months ended 30 June 2018.

The revenue of Sichuan Greenland was approximately RMB17.9 million for the six months ended 30 June 2019, representing a decrease of approximately 55.5% as compared with the six months ended 30 June 2018. Such decreases are mainly due to:

(i) Revenue attributable to our historically strong sales provinces and autonomous regions such as Sichuan province, Yunnan province, Guizhou province, Chongqing city, Tibet Autonomous Region decreased by approximately RMB6.8 million or 27.8% as compared with the corresponding period in 2018. Except for the sales growth of Chongqing of 14.9%, other provinces and regions have suffered a significant decline. This is mainly due to orders from large customers having decreased significantly as compared with the corresponding period in 2018. The average sales volume derived from new customers is relatively low, so the realized revenue did not make up for the decline in revenue of the above provinces; and

(ii) In the same period of 2018, the revenues of Guangxi Autonomous Region, Guangdong Province and Jiangsu Province were approximately RMB10.8 million, RMB1.6 million and RMB1.8 million. However, in the first six months of this year, the above three provinces and regions have barely realized any revenues, which is the main reason for the decline in sales this year. This is mainly due to the non-continuous (or one-time) nature of the sales orders of the bidding customers. However, the orders of several major customers that were expected to be obtained were not finally obtained due to price, cost or time factors, and failed to make up for the reduced profits of existing customers.

The revenue from Chongqing Branch Office was approximately RMB2.0 million for the six months ended 30 June 2019, representing a decrease of approximately RMB1.8 million or approximately 48.5% as compared with the six months ended 30 June 2018. Such decrease was primarily due to two large customers contributing to revenues of approximately RMB1.7 million in the six months ended 30 June 2018 while the sales volume derived from customers in general was lower for the six months ended 30 June 2019. The realised revenue from the additional customers cannot cover the decrease in revenue from the decrease in existing customers.

Cost of sales

Cost of sales mainly comprised (i) raw materials used for production; (ii) cost of goods purchased; (iii) labour costs; and (iv) production overheads such as depreciation. For the six months ended 30 June 2019, the Group's cost of sales amounted to approximately RMB13.5 million, representing a decrease of approximately RMB14.0 million or 50.8% from approximately RMB27.5 million for the six months ended 30 June 2018. Such decrease was mainly attributable to (i) the Group's sales decreasing by approximately RMB24.1 million; (ii) a decrease in the cost of raw materials used and cost of goods purchased of approximately RMB12.4 million; (iii) a decrease in salary of production staff of approximately RMB0.3 million; and (iv) a decrease in other production expenses of approximately RMB1.3 million.

Gross profit

Gross profit decreased from approximately RMB16.6 million for the six months ended 30 June 2018 to approximately RMB6.4 million for the six months ended 30 June 2019. The gross profit margin decreased from approximately 37.6% for the six months ended 30 June 2018 to approximately 32.1% for the six months ended 30 June 2019. Such decrease was mainly attributable to the decrease in sales revenue exceeding the decrease in cost of sales. The sales revenue of the Group for the six months ended 30 June 2019 decreased year-on-year by approximately RMB24.1 million or 54.8% as compared with the corresponding period in 2018, while the cost of sales only decreased by approximately RMB14.0 million or 50.8% as compared with the corresponding period in 2018, resulting in a significant decrease in total gross profit and gross profit margin.

Other income

For the six months ended 30 June 2019, the Group's other income amounted to approximately RMB615,000, representing an increase of approximately 318.4% from approximately RMB147,000 for the six months ended 30 June 2018. Such increase was mainly attributable to the increase in interest income arising from unwinding of discounted quality assurance deposits of the Group for the six months ended 30 June 2019 as compared with the corresponding period in 2018 and the increase in interest income from banks over the same period in 2018.

Administrative expenses

For the six months ended 30 June 2019, the Group's administrative expenses amounted to approximately RMB6.5 million, representing an increase of approximately 15.6% from approximately RMB5.7 million for the six months ended 30 June 2018. Such increase was mainly attributable to the increase in the research and development expenses of innovative products for the six months ended 30 June 2019 as compared with the corresponding period in 2018 and the increase in provision for inventory losses accrued by the Company.

Selling and distribution expenses

For the six months ended 30 June 2019, the selling and distribution expenses of the Group amounted to approximately RMB2.5 million, representing an increase of approximately 15.1% from approximately RMB2.2 million for the six months ended 30 June 2018. Such increase was mainly attributable to the increase in amortization expenses for the renovation of the exhibition hall.

Income tax expense

For the six months ended 30 June 2019, the Group's income tax expense amounted to approximately RMB70,000, representing a decrease of approximately 97.1% from approximately RMB2.4 million for the six months ended 30 June 2018. Such decrease was mainly attributable to a significant decrease in taxable profit of the Group generated in the corresponding period.

LIQUIDITY AND FINANCIAL RESOURCES

For the six months ended 30 June 2019, the Group financed its operations by internally generated cash flow and net proceeds from the placing of new shares. The Group had net current assets of approximately RMB120.6 million as at 30 June 2019 (31 December 2018: approximately RMB93.7 million) including bank balances and cash of approximately RMB44.3 million (31 December 2018: approximately RMB37.4 million). The Group has no outstanding interest bearing bank loan as at 30 June 2019 (31 December 2018: no outstanding interest bearing bank loan). The Group's current ratio (defined as the ratio of current assets to current liabilities) was approximately 8.7 as at 30 June 2019 (31 December 2018: approximately 7.1).

CAPITAL STRUCTURE

The Group's total equity attributable to the owners of the Company amounted to approximately RMB182.3 million as at 30 June 2019 (31 December 2018: approximately RMB157.5 million). The Group's total equity attributable to the owners of the Company includes share capital and capital reserve.

GEARING RATIO

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 0.06 as at 30 June 2019 (31 December 2018: approximately 0.02).

CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any material contingent liabilities.

SIGNIFICANT INVESTMENTS HELD

For the six months ended 30 June 2019, the Group did not have any significant investments apart from those already disclosed in the Prospectus.

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 2019. However, the Group will review and monitor from time to time the risk relating to foreign exchange.

INFORMATION ON EMPLOYEES

As at 30 June 2019, the Group engaged a total of 211 employees (2018: 240) including the Directors. For the six months ended 30 June 2019, total staff costs amounted to approximately RMB5.1 million (2018: approximately RMB5.0 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.

PLEDGE OF ASSETS

During the six months ended 30 June 2019, the Group did not have any pledge of assets.

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 June 2019, 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 or 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 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)	14.50%

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 June 2019, none of the Directors nor the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the 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 June 2019, 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)	30.51%
Mr. Ma Gary Ming Fai ("**Mr. Ma**")	Interest in a controlled corporation *(Note 1)*	245,300,400 (Long position)	30.51%
Ms. Hung Fung King Margaret	Interest of spouse *(Note 2)*	245,300,400 (Long position)	30.51%
Brilliant Talent Global Limited	Beneficial owner *(Note 3)*	116,580,000 (Long position)	14.50%
Ms. Zhang Gui Hong	Interest in a controlled corporation *(Note 3)*	116,580,000 (Long position)	14.50%

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 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 June 2019, 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.

Use of proceeds from the initial placing of shares

As at 20 January 2017, the Company issued 268,000,000 ordinary shares on 19 January 2017 at a price of HK$0.31 per share through placing (the "**Placing**"). Net proceeds from the Placing amounted to approximately HK$59.7 million (after deducting the underwriting fees and other related expenses).

Up to the six months ended 30 June 2019, the Group applied the net proceeds for the following purposes:

	Use of proceeds in the same manner and proportion as stated in Prospectus HK$ million	Actual use of proceeds up to the six months ended 30 June 2019 HK$ million
Renovation of the Group's exhibition hall in Sichuan Greenland	5.0	5.0
Acquisition of new machinery and equipment	10.9	6.1
Repayment of existing short-term bank borrowings of the Group	42.8	42.8
The Group's working capital and other general corporate purposes	1.0	1.0
	59.7	54.9

As at the date of this report, the renovation of the Group's Chengdu exhibition hall has been completed and put into operation in the first quarter of 2018; the Group has purchased machinery and equipment as planned and the equipment has been delivered (purchases of some machines are suspended due to 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 has been put to use 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.

The Directors regularly evaluate the Group's business objective and may change or modify plans against the changing market condition to ensure the business growth of the Group. During the six months ended 30 June 2019, the Directors considered that no modification of the use of proceeds described in the Prospectus was required.

Use of proceeds from the Placing under the General Mandate

On 25 June 2019, based on 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 (equivalent to approximately 16.67% of the issued share capital of the Company as enlarged by the Placing) at the price of HK$0.235 per share.

For the six months ended 30 June 2019, the Group has used the above net proceeds from the Placing under the General Mandate for the following purposes:

	Use of proceeds in the same manner and proportion as stated in the announcement dated 25 June HK$ million	Actual use of proceeds up to the six months ended 30 June 2019 HK$ million
Procurement of raw materials required for production	12.92	–
Increase in liquidity of the Group to provide customers with a longer credit period	7.07	–
Used as working capital of the Group to fulfill its obligations such as paying professional fees	10.77	–
	30.76	–

As at the date of this report, 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.

OTHER INFORMATION

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the Prospectus, the Group did not as at 30 June 2019 have other future plans for material investments or capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the six months ended 30 June 2019, 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.

SHARE OPTION SCHEME

The shareholders of the Company approved and adopted the share option scheme of the Company (the "**Share Option Scheme**") by way of written resolutions on 19 December 2016. Since the adoption, no share option has been granted under the Share Option Scheme, and no share option has been granted as at 30 June 2019.

DEED OF NON-COMPETITION

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

OTHER INFORMATION

COMPETING INTEREST

Mr. Ma is the sole shareholder of Myshowhome International Limited ("**Myshowhome International**", together with its subsidiaries, the "**Myshowhome Group**"). Myshowhome International holds 100% interest in Myshowhome (Hong Kong) Limited ("**Myshowhome HK**"), which in turn holds 100% interest in Dongguan Shangpin Furniture Co., Ltd. (東莞市尚品家具有限公司) ("**Shangpin**"). Shangpin is a wholly foreign-owned enterprise established under the laws of the PRC on 10 July 2012 with a registered capital of HK$8 million and is principally engaged in the manufacturing of sofas and sofa-beds for export to places outside the PRC. Mr. Ma confirms that Myshowhome International and Myshowhome HK are both investment holding companies. For further details, please refer to the section headed "Relationship with Controlling Shareholders" in the Prospectus.

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

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

OTHER INFORMATION

INTERESTS OF THE COMPLIANCE ADVISER

Pursuant to Rule 6A.19 of the GEM Listing Rules, the Company appointed Octal Capital Limited as the compliance adviser of the Company. As notified by Octal Capital Limited, neither they nor any of their directors, employees or close associates had any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities, if any) or otherwise in relation to the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules as at 30 June 2019 (excluding the compliance adviser agreement entered into between the Company and Octal Capital Limited on 5 March 2018 (the "**Compliance Adviser Agreement**")).

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

AUDIT COMMITTEE

The Company established an audit committee (the "**Audit Committee**") on 19 December 2016 with written terms of reference. The 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 2019. The Audit Committee is of the view that the unaudited consolidated results are in compliance with the applicable accounting standards, the GEM Listing Rules and other legal requirements, and that the sufficient disclosure was made.

OTHER INFORMATION

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted Rules 5.48 to 5.67 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 2019 and up to the date of this report.

NO CHANGE IN INFORMATION OF DIRECTORS

During the six months ended 30 June 2019, 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 2019, 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 June 2019, the Company has complied with the applicable code provisions of the CG Code.

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

Hong Kong, 9 August 2019

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.