

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



2021

First 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 consolidated results of the Group for the three months ended 31 March 2021, together with the comparative unaudited figures for the corresponding period in 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED 31 MARCH 2021

	Notes	For the three months ended 31 March	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Revenue	4	14,467	16,016
Cost of sales		(13,196)	(12,595)
Gross profit		1,271	3,421
Other income	5	361	727
Selling and distribution expenses		(1,712)	(1,982)
Administrative and other expenses		(3,658)	(5,663)
Impairment loss on trade and other receivables		(1,346)	(583)
Finance costs	6	(669)	(952)
Loss before income tax		(5,753)	(5,032)
Income tax credit	7	408	42
Loss for the period attributable to the owners of the Company		(5,345)	(4,990)
Other comprehensive (loss) for the period:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(77)	(1,137)
Total comprehensive loss for the period attributable to the owners of the Company		(5,422)	(6,127)
Loss per share			
— Basic and diluted (RMB cents)	9	(0.59)	(0.56)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 31 MARCH 2021

	Share capital	Share premium	Convertible bonds equity reserve	Other reserve	Statutory reserve	Foreign exchange reserve	Retained earnings/ (accumulated losses)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2020 (Audited, restated)	7,100	163,826	-	(11,131)	4,158	(8,579)	13,003	168,377
Loss for the period	-	-	-	-	-	-	(4,990)	(4,990)
Other comprehensive income:								
Exchange difference arising on translating of foreign operations	-	-	-	-	-	(1,137)	-	(1,137)
Total comprehensive expense for the period	-	-	-	-	-	(1,137)	(4,990)	(6,127)
Issue of consideration shares (Note 10)	916	23,370	-	-	-	-	-	24,286
Issue of convertible bonds (Note 10)	-	-	7,337	-	-	-	-	7,337
Transfer to statutory reserve	-	-	-	-	80	-	(80)	-
As at 31 March 2020 (Unaudited)	8,016	187,196	7,337	(11,131)	4,238	(9,716)	7,933	193,873
As at 1 January 2021 (Audited)	8,016	187,196	7,337	(11,131)	4,498	(9,403)	(14,290)	172,223
Loss for the period	-	-	-	-	-	-	(5,345)	(5,345)
Other comprehensive income:								
Exchange difference arising on translating of foreign operations	-	-	-	-	-	(77)	-	(77)
Total comprehensive expense for the period	-	-	-	-	-	(77)	(5,345)	(5,422)
Transfer to statutory reserve	-	-	-	-	6	-	(6)	-
As at 31 March 2021 (Unaudited)	8,016	187,196	7,337	(11,131)	4,504	(9,480)	(19,641)	166,801

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2021

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 Windward 3, Regetta Office Park, 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 the data centre business in the PRC and Hong Kong from January 2020, as detailed in Note 10.

The shares of the Company were listed on GEM on 20 January 2017.

2. BASIS OF PREPARATION

The Group's unaudited condensed consolidated financial statements for the three months ended 31 March 2020 and 2021 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and disclosure provisions of GEM.

Other than the adoption of the new and revised HKFRSs during the accounting period from 1 January 2021, 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 2020.

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

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

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2021

3. SEGMENT REPORTING

The operating segments are determined with reference to the reports and financial information reviewed by the Company's executive directors responsible for financial and accounting matters for the purpose of assessment of performance and resource allocation.

For the three months ended 31 March 2021 ("Reporting Period"), the Group has two reportable segments, which is manufacture and sale of furniture products and data centre business. The following summarises the operation of each reportable segment of the Group:

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

(a) Reportable segment revenue and results

	Manufacture and sale of furniture products		Data centre		Total	
	For the three months ended 31 March		For the three months ended 31 March		For the three months ended 31 March	
	2021	2020	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue						
Sale of office furniture products	8,012	10,782	-	-	8,012	10,782
Information technology management service	-	-	1,015	-	1,015	-
Internet access connection service	-	-	100	179	100	179
Data centre operating and security service	-	-	356	664	356	664
Rental of server racks	-	-	4,984	4,391	4,984	4,391
	8,012	10,782	6,455	5,234	14,467	16,016
Segment results	(4,380)	(2,836)	(388)	(812)	(4,768)	(3,648)
Unallocated expenses					(772)	(1,386)
Interest income					1	2
Interest expense on convertible bonds					(214)	-
Loss before income tax					(5,753)	(5,032)

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2021

The Group had no inter-segment transactions during the three months ended 31 March 2020.

Unallocated expenses comprised mainly of the expenses of the Group's office in Hong Kong which were not directly attributable to the business activities of any operating segment.

(b) Other segment information

	Manufacture and sale of furniture products		Data centre		Unallocated		Total	
	For the three months ended 31 March		For the three months ended 31 March		For the three months ended 31 March		For the three months ended 31 March	
	2021	2020	2021	2020	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank interest income	10	17	7	3	1	2	18	22
Interest income from other receivables	-	414	-	-	-	-	-	414
Interest income arising from unwinding contract assets with significant financing component	105	77	-	-	-	-	105	77
Interest expense on bank borrowing	66	382	-	-	-	-	66	382
Interest expense on lease liabilities	10	25	379	545	-	-	389	570
Interest expense on convertible bonds	-	-	-	-	214	-	214	-
Amortisation of intangible assets	-	-	1,402	1,123	-	-	1,402	1,123
Depreciation of right-of-use assets	209	178	3,515	3,005	-	-	3,724	3,183
Depreciation of property, plant and equipment	942	979	-	-	-	-	942	979
Impairment loss on trade and other receivables	1,346	583	-	-	-	-	1,346	583
Addition to intangible assets through business combination	-	-	-	13,624	-	-	-	13,624
Addition to property, plant and equipment	2	6	-	-	-	-	2	6
Addition to right-of-use assets through business combination	-	-	-	36,343	-	-	-	36,343

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2021

(c) 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.

	For the three months ended 31 March	
	2021	2020
	RMB'000	RMB'000
Revenue from external customers		
The PRC	13,452	16,016
Hong Kong	1,015	–
	14,467	16,016

The geographical location of revenue allocated is based on the location at which the goods were delivered and the service were rendered.

No geographical location of non-current assets is presented as all of the Group's non-current assets are physically based in the PRC.

(d) Information about major customer

The Group's customer base is diversified and includes only the following customers with whom transactions have exceeded 10% of the Group's revenue. During the reporting period, revenue attributed to Customer A and Customer C from the data centre segment and Customer B and Customer D from the manufacture and sale of furniture products segment are as follows:

	For the three months ended 31 March		From reporting segment
	2021	2020	
	RMB'000	RMB'000	
Customer A	1,907	2,180	Data centre
Customer B	1,845	–	Manufacture and sale of furniture products
Customer C	1,717	–	Data centre
Customer D	1,526	N/A	Manufacture and sale of furniture products

N/A: represents transactions during the reporting period which did not exceed 10% of the Group's revenue.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2021

4. REVENUE

	For the three months ended 31 March	
	2021	2020
	RMB'000	RMB'000
Revenue from contracts with customer within the scope of HKFRS 15		
Sale of furniture products	8,012	10,782
Information technology management service	1,015	–
Internet access connection service	100	179
Data centre operating and security service	356	664
	9,483	11,625
Revenue from other sources		
Rental of server racks	4,984	4,391
	14,467	16,016

Disaggregation of revenue from contracts with customer within the scope of HKFRS 15 by the timing of revenue recognition is as follows:

	For the three months ended 31 March	
	2021	2020
	RMB'000	RMB'000
Revenue from contracts with customers in accordance with HKFRS 15		
Timing of revenue recognition		
At a point in time	8,012	10,782
Over time	1,471	843
	9,483	11,625

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2021

The Group's revenue is divided into two parts by reporting segment: sale of furniture products and data centre business, with an analysis as follows:

	For the three months ended 31 March	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sale of furniture products	8,012	10,782
Data centre business	6,455	5,234
	14,467	16,016

5. OTHER INCOME

	For the three months ended 31 March	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bank interest income	18	22
Interest income from other receivables	–	414
Exchange gain, net	1	–
Interest income arising from unwinding contract assets with significant financing components	105	77
Dividend income from financial assets at fair value through profit or loss	188	160
Fair value changes on financial assets at fair value through profit or loss	–	8
Subsidy income	48	–
Others	1	46
	361	727

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2021

6. FINANCE COSTS

	For the three months ended 31 March	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest expense on bank borrowing	66	382
Interest expense on lease liabilities	389	570
Interest expense on convertible bonds	214	–
	669	952

7. INCOME TAX CREDIT

	For the three months ended 31 March	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
— Tax for the period	–	–
Deferred tax		
— Current period of 1–3 months	408	42
	408	42

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 three months ended 31 March 2021 and 2020, or derived profits which is not subject to income tax due to the compensation for the loss of the previous years.

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.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2021

8. DIVIDENDS

The Board does not recommend the payment of dividend for the three months ended 31 March 2021 (2020: Nil). No shareholder has agreed to waive dividends.

9. 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 907,333,333 and 890,300,366 ordinary shares in issue for the three months ended 31 March 2021 and 2020.

	For the three months ended 31 March	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The loss used to calculate the basic loss per share for three months	(5,345)	(4,990)

	'000 shares	'000 shares
Number of Shares: Number of shares used to calculate the basic loss per share	907,333	890,300

Note: The calculation of the basic loss per share attributable to the owners of the Company is based on the loss for the three months ended 31 March 2021 of approximately RMB5.345 million (for the three months ended 31 March 2020: a loss of approximately RMB4.990 million) and the weighted average number of 907,333,333 ordinary shares of the Company in issue (2020: 890,300,366 ordinary shares of the Company in issue for the three months ended 31 March 2020).

There were no dilutive potential ordinary shares in issue for the three months ended 31 March 2021 and 2020. Accordingly, the diluted loss per share is the same as the basic loss per share.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2021

10. ACQUISITION OF A SUBSIDIARY, POLYQUEUE LIMITED

On 15 January 2020 (the “**Acquisition Date**”), the Company has completed the acquisition of 100% issued share capital of Polyqueue Limited. The acquisition was made as the Group’s strategy to expand its business presence into data centre industry. The total consideration of HK\$37,200,000 (the “**Consideration**”) for 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 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 goodwill arising from the acquisition as at the Acquisition Date is as follows:

	Fair value RMB'000
Fair value of non-cash consideration	38,171
Less: Fair value of net assets acquired	(7,344)
Goodwill	30,827

The fair values of non-cash considerations as at the Acquisition Date were as follows:

	Fair value RMB'000
Consideration Shares	24,286
Convertible Bonds	
— Liability component	6,548
— Equity component	7,337
	38,171

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2021

The fair values of the identifiable assets and liabilities arising from the acquisition as at the Acquisition Date were as follows (audited, restated):

	Fair value RMB'000
Right-of-use assets	36,343
Intangible assets	13,624
Trade and other receivables	8,148
Cash and bank balances	948
Trade and other payables	(12,847)
Lease liabilities	(36,343)
Deferred tax liabilities	(2,529)
Fair value of net identifiable assets acquired	7,344

Net cash outflow from the acquisition of subsidiaries:

	RMB'000
Cash and bank balances in subsidiaries acquired	948

The fair values of the trade and other receivables as at the Acquisition Date amounted to RMB8,148,000. The Group incurred transaction costs of RMB1,570,000 for this acquisition. These transaction costs have been recognised as an expense in profit or loss during the year ended 31 December 2019. The goodwill recognised is not deductible for income tax purposes.

During the Reporting Period, apart from the amortisation expense of intangible assets of approximately RMB1.4 million, Polyqueue Limited has contributed approximately RMB6.5 million and approximately RMB1.0 million to the Group's revenue and profit before income tax respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the manufacture and sale of furniture products for selling to the domestic PRC market with a large proportion of its sales derived from Sichuan Province, Chongqing City and Guizhou Province etc. 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 started to engage in data centre business in the PRC and Hong Kong in 2020. 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 products business

During the same period last year, the Group's sales revenue was less affected by the novel coronavirus epidemic as the majority of deliveries were for sales orders placed prior to the previous year's epidemic; during the Reporting Period, the Group's sales revenue was, on the contrary, more affected by the novel coronavirus epidemic as the majority of potential customers were cautious in purchasing or postponing the replacement of furniture products, resulting in fewer new sales orders being signed, thus affecting product deliveries and revenue during the Reporting Period.

Data centre business

Since the current revenue of the segment is mainly the rental income from server rack rentals and the signed rental contracts involve continuity before expiration, the business of data centre segment is more stable. It is now actively source new customers, with each business being progressed steadily. During the Reporting Period, apart from the amortisation expense of intangible assets of approximately RMB1.4 million, the data centre segment has contributed approximately RMB6.5 million (approximately RMB5.2 million for the same period last year) and approximately RMB1.0 million (approximately RMB0.3 million for the same period last year) to the Group's revenue and profit before income tax respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the Group recorded a revenue of approximately RMB14.5 million, representing a decrease of approximately RMB1.5 million or approximately 9.7% as compared to the same period last year. During the Reporting Period, the Group recorded a loss of approximately RMB5.3 million, as compared with the loss of approximately RMB5.0 million for the same period last year.

The increase in loss was mainly because: during the Reporting Period, manufacture and sale of furniture products segment recorded a revenue of approximately RMB8.0 million, representing a decrease of approximately RMB2.8 million or approximately 25.7% as compared to the same period last year, and the provision for loss of inventories increased by approximately RMB0.35 million as compared to the same period last year, combining to result in the decrease of gross profit by approximately RMB0.9 million as compared to the same period last year. Excluding the data centre segment, the Group's business position was as follows: (i) other income decreased by approximately RMB0.4 million as compared to the same period last year; (ii) administrative and other expenses increased by approximately RMB0.1 million as compared to the same period last year, mainly attributable to the increase in the Group's provision for expected credit losses as compared to the same period last year; (iii) selling and distribution expenses and finance costs decreased by approximately RMB0.2 million and RMB0.1 million respectively as compared to the same period last year. Contribution from the data center segment to the Group's profit before income tax increased by approximately RMB0.8 million as compared to the same period last year, offsetting the increase in the Group's loss.

Prospects

As to our furniture business, the Group is confident of leveraging its strengths to further consolidate the Southwest China market and expand beyond the Southwest China market when the conditions are appropriate. Meanwhile, the Group has also increased its investment in product technology research and development year by year to diversify its product design and keep pace with the market trend, in order to attract new customers and retain long-term customers, so as to enhance the Group's competitiveness in tender and biddings and expand its market share. In addition, the Group will further implement more stringent cost control measures to reduce unnecessary energy consumption, and strive to achieve the profit target set by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

In addition, the Group introduced data centre business last year to expand its revenue source. In the long run, the Group can withstand market fluctuations at different stages of the business and economic cycle.

On 14 October 2020, Polyqueue Limited, a subsidiary of the Group, entered into a non-legally binding term sheet with the other parties in relation to the proposed establishment of a joint venture, in order to establish, operate and/or invest in data centre business in the PRC. The term sheet is not legally binding and may not result in execution of a formal agreement. Up to the date of this report, the above matter is still under negotiation, and the Company will publish an update announcement when any progress is made.

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. Currently, data centre business of the Group has less than 1,000 square meters of area in service, with the expected area in service to reach more than 150,000 square meters within three years. As the data center business could be capital intensive, the Group will do our best to keep a light balance sheet. The Group will work with banks, investment funds and other investors to minimise the investment costs. The Group will mainly take a management role in all projects, with responsibilities include planning and sourcing of new data centers, development of sites, securing customers commitments, providing customers with sorting and management service, and maintaining high levels of service and customer satisfaction to develop and maintain long term relationships with our customers.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

During the Reporting Period, the Group achieved a revenue of approximately RMB14.5 million, representing a decrease of approximately RMB1.5 million or approximately 9.7% as compared to the same period last year.

Manufacture and sale of furniture products segment: during the Reporting Period, the Group achieved a revenue from sales of furniture products of approximately RMB8.0 million, representing a decrease of approximately RMB2.8 million or approximately 25.7% as compared to the same period last year, which was mainly attributable to the facts that:

- (i) Revenue from the five southwestern provinces such as Sichuan and Chongqing decreased by approximately RMB1.2 million or 18.3% as compared to the same period last year. Although the Group continued to implement its business strategy to consolidate its market share in the five southwestern provinces, as most of the sales orders delivered in the same period last year were signed before the novel coronavirus epidemic, the impact from the epidemic was relatively small. During the Reporting Period, majority of potential customers were cautious in purchasing or postponing the replacement of furniture products due to the novel coronavirus epidemic, resulting in fewer new sales orders being signed, thus affecting product deliveries and revenue during the Reporting Period.
- (ii) Revenue from Guangdong Province decreased by approximately RMB1.5 million or 96.9% as compared to the same period last year, mainly attributable to the revenue of approximately RMB1.5 million from a new financial institution customer in the same period last year. As most orders from such customer had been delivered with revenue recorded prior to the Reporting Period, the revenue contributed by such customer during the Reporting Period was only approximately RMB0.05 million; and
- (iii) Revenue from Chongqing Branch Office was approximately RMB2.4 million during the Reporting Period, representing an increase of approximately RMB0.2 million or 8.9% as compared to the same period last year. In order to maintain effective operations, the branch office recorded a revenue of approximately RMB1.8 million by obtaining a large customer order at a lower gross margin.

MANAGEMENT DISCUSSION AND ANALYSIS

Data centre segment: Data centre segment recorded a revenue of approximately RMB6.5 million during the Reporting Period, representing an increase of approximately RMB1.2 million or approximately 23.3% as compared to the same period last year, mainly because the Reporting Period is half a month longer than the same period last year, and the continuous growth of the data centre business.

Cost of sales

Cost of sales mainly comprised (i) raw materials used for production; (ii) cost of products purchased; (iii) labour costs; and (iv) production or operation overheads such as depreciation, amortization of intangible assets, utilities bills, maintenance fee and rent. The Group's cost of sales for the Reporting Period was approximately RMB13.2 million, representing an increase of approximately RMB0.6 million or 4.8% over that of approximately RMB12.6 million for the same period last year. Of which:

Manufacture and sale of furniture products segment: cost of sales for the Reporting Period was approximately RMB7.4 million, representing a decrease of approximately 20.5% as compared to the same period last year. Decrease in cost of sales was driven by the decrease in sales, but the decrease in cost of sales was smaller than the decrease in revenue, resulting in a larger decrease in gross profit margin. Based on the composition analysis of cost of sales, of which: (i) the cost of raw materials used and products purchased decreased by approximately RMB1.6 million (and the decrease in cost of sales was delayed by increase in the Group's provision for loss of inventories by approximately RMB0.35 million as compared to the same period last year); (ii) wages of production staff decreased by approximately RMB0.1 million; and (iii) other production expenses decreased by approximately RMB0.2 million.

Data centre segment: cost of sales for the Reporting Period was approximately RMB5.8 million, representing an increase of approximately RMB2.5 million or 74.5%, which was mainly attributable to the amortisation of intangible assets arising from the acquisition of data center business of approximately RMB1.4 million being included in cost of sales. Excluding the above factors, the cost of sales of data centre segment increased by approximately RMB1.1 million or 32.6%, which was slightly greater than the growth in sales revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit

Gross profit decreased to approximately RMB1.3 million for the Reporting Period from approximately RMB3.4 million for the same period last year. Of which:

Manufacture and sale of furniture products segment: gross profit for the Reporting Period decreased by approximately RMB0.9 million or 57.3% as compared to the same period last year. The gross profit margin of furniture products decreased from approximately 14.2% for the same period last year to approximately 8.2% for the Reporting Period. The decrease in gross profit margin was mainly attributable to: (i) the Group's provision for loss of inventories increased by approximately RMB0.35 million as compared to the same period last year. Due to the smaller sales revenue base, the above factors resulted in a 4.4% decrease in gross profit margin; (ii) as a result of the weakening of overall demand, intensified market competition and the impact of the novel coronavirus epidemic, customers have become more cautious in purchasing or replacing furnitures. The Group continues to compete for more orders at lower product prices in order to maintain effective operations.

Data centre segment: gross profit for the Reporting Period decreased by approximately RMB1.2 million or 67.3% as compared to the same period last year. The decrease in gross profit margin from approximately 36.1% for the same period last year to approximately 9.6% for the Reporting Period was mainly attributable to the amortisation of intangible assets of approximately RMB1.4 million arising from the acquisition of the data center business being included in cost of sales. Due to the smaller sales revenue base of the data centre, the above factors resulted in a 21.7% decrease in gross profit margin.

Other income

The Group's other income for the Reporting Period was approximately RMB361,000, representing a decrease of approximately 50.3% as compared to that of approximately RMB727,000 for the same period last year, which was mainly attributable to the interest income from other receivables of approximately RMB414,000 recorded in the same period last year, while there was no such income for the Reporting Period. Other items of other income did not change significantly as compared to the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution expenses

During the Reporting Period, the Group's selling and distribution expenses amounted to approximately RMB1.7 million, representing a decrease of approximately 13.6% from approximately RMB2.0 million for the same period last year. Among which the data centre segment did not incur any selling expenses during the Reporting Period, compared to the selling expenses of approximately RMB0.1 million for the same period last year. Excluding the above factor, the selling and distribution expenses of the manufacture and sale of furniture products segment decreased by approximately 8.9% as compared to the same period last year, which was mainly due to the installation and handling fees, loading and unloading expenses and travel expenses incurred for the same period last year were higher since the Company tried to deliver customer orders as schedule under the impact of novel coronavirus epidemic, while the above expenses for the Reporting Period decreased accordingly.

Administrative and other expenses

During the Reporting Period, the Group's administrative and other expenses amounted to approximately RMB5.0 million, representing a decrease of approximately RMB1.2 million or 19.9% from approximately RMB6.2 million for the same period last year. Among which, administrative and other expenses of the data centre segment amounted to approximately RMB0.7 million, representing a decrease of approximately RMB1.4 million or 67.3% as compared to the same period last year, which was mainly attributable to the amortisation of intangible assets of approximately RMB1.1 million arising from the acquisition of the data center business being included in the cost of sales in the Reporting Period, rather than being included in administrative and other expenses as in the same period last year. Excluding the above factors, the Group's administrative and other expenses for the Reporting Period amounted to approximately RMB4.3 million, representing an increase of approximately RMB0.1 million or 3.5% as compared to the same period last year, which was mainly attributable to: (i) an increase in the Group's provision for expected credit losses of approximately RMB0.8 million as compared to the same period last year; (ii) legal professional fees of approximately RMB0.6 million arising from the acquisition of the data center business in the same period last year, while no such fees were incurred in the Reporting Period; and (iii) under the impact of the novel coronavirus epidemic in the same period last year, the Company purchased more epidemic prevention materials and incurred higher staff welfare expenses, while the above expenses decreased significantly in the Reporting Period. The decrease in (ii) and (iii) above effectively offset the increase in administrative and other expenses of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

During the Reporting Period, the Group's finance costs amounted to approximately RMB0.7 million, while the finance cost was approximately RMB1.0 million for the same period last year. The decrease in the Group's finance costs was mainly attributable to the repayment of the liquidity loan obtained from China CITIC Bank on 4 January 2021, the interest expense incurred thereon decreased by approximately RMB0.3 million as compared to the same period last year. Other finance costs of the Group included: the lease commitment of the data centre business was recognised as liabilities and amortised as interest expense during the lease term as a result of the adoption of the new HKFRS 16 for leases, and the interest expenses arising from the convertible bonds issued by the Group.

Income tax credit

During the Reporting Period, the Group's income tax credit was approximately RMB0.41 million, while the income tax credit was approximately RMB0.04 million for the same period last year. The income tax credit of the Group was due to: (i) the Group incurred loss during the respective period, while some of the subsidiaries recorded a profit which was not subject to income tax due to the compensation for the loss of the previous years; (ii) deferred tax credit in respect of newly acquired data centre business during the Reporting Period and the fair value adjustment of assets caused by the acquisition of subsidiaries in previous years.

PLEDGE OF ASSETS

As at the date of this report, the Group had repaid the working capital loan of RMB30.0 million (loan term: one year) obtained from China CITIC Bank on 4 January 2021. The above loan was secured by the land use rights and property of the production facilities in Chengdu City and the pledged security for the above loan was released simultaneously from the day of repayment. 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 or its associated corporations

As at 31 March 2021, 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 (“SFO”)) 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 SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) to be entered into the register required to be kept therein, pursuant to Section 352 of the SFO, 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 1)	116,580,000 (Long position)	12.85%

Note:

1. Mr. Yi Cong is the spouse of Ms. Zhang Gui Hong. Accordingly, Mr. Yi Cong is deemed to be interested in the shares held by Ms. Zhang Gui Hong for the purpose of Part XV of the SFO.

Save as disclosed above, as at the date of this report, 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 SFO) 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 SFO (including interests and/or short positions which they were taken or deemed to have under the SFO) or (ii) to be entered into the register required to be kept therein, pursuant to section 352 of the SFO, 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.

OTHER INFORMATION

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

As at 31 March 2021, 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 under Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the GEM Listing Rules.

Name of shareholder	Capacity/ Nature of interest	Number of ordinary shares held/ interested	Percentage of shareholdings
Sun Universal Limited	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%

Notes:

- 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 Limited for the purpose of Part XV of the SFO.
- 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 SFO.
- 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 SFO.

Save as disclosed above, as at 31 March 2021, 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 SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

OTHER INFORMATION

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 31 March 2021, no share option was granted, exercised, cancelled or lapsed pursuant to the Share Option Scheme.

SIGNIFICANT EVENTS AFTER THE PERIOD

On 29 March 2021, the Board announced the appointment of Mr. Ma Gary Ming Fai as an executive director of the Company effective from 1 April 2021. Thereafter Mr. Ma has been primarily responsible for finance and compliance of the Group. In addition, Mr. Yi Cong, an executive Director and Chief Executive Officer of the Company, resigned from the position of compliance officer effective from 1 April 2021 in order to focus his efforts on the Company’s business pursuits, with Mr. Ma taking over as the compliance officer on the same day. Details are set out in the announcement of the Company dated 29 March 2021.

AUDIT COMMITTEE

The Company established the Audit Committee (the “**Audit Committee**”) on 19 December 2016 with written terms of reference. 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 unaudited consolidated financial statements of the Group for the three months ended 31 March 2021.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted Rules 5.48 to 5.68 of the GEM Listing Rules as its own code of conduct regarding securities transactions by directors (the “**Code of Conduct**”). Having made specific enquiries to the Directors, the Company has confirmed that all Directors have complied with the Code of Conduct during the three months ended 31 March 2021 and up to the date of this report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

From the listing date to the date of this report, the Company did not redeem any of its shares, and neither the Company nor any of its subsidiaries have bought or sold any listed securities 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 the date of this report, 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 May 2021

As at the date of this report, the Board comprises Mr. Yi Cong, Mr. Liang Xing Jun and Mr. Ma Gary Ming Fai 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.