

ZHI SHENG GROUP HOLDINGS LIMITED

智昇集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8370)

ANNOUNCEMENT OF FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2022

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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 ended 30 September 2022, together with the comparative unaudited figures for the corresponding period in 2021 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2022

	Notes	For the three months ended 30 September	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue	4	36,420	48,473
Cost of sales		(34,426)	(46,543)
Gross profit		1,994	1,930
Other income, net		1,651	740
Selling and distribution expenses		(2,023)	(1,707)
Administrative and other expenses		(5,105)	(14,296)
Impairment loss on assets		(850)	(1,544)
Operating loss		(4,333)	(14,877)
Finance costs		(2,436)	(1,623)
Loss before income tax		(6,769)	(16,500)
Income tax (expense)/credit	5	(354)	141
Loss for the period attributable to the owners of the Company		(7,123)	(16,359)
Other comprehensive expense/(gain) after income tax for the period:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(3,559)	21
Total comprehensive loss for the period attributable to the owners of the Company		(10,682)	(16,338)
Loss per share	7		
— Basic and diluted (RMB cents)		(0.79)	(1.80)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2022

	Share capital	Share premium	Convertible bonds equity reserve	Share option 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	RMB'000
As at 1 July 2021 (Unaudited)	8,016	187,196	7,337	-	(11,131)	4,521	(9,461)	(25,307)	161,171
Loss for the period	-	-	-	-	-	-	-	(16,359)	(16,359)
Other comprehensive income:									
Exchange difference arising on translating of foreign operations	-	-	-	-	-	-	21	-	21
Total comprehensive expense for the period	-	-	-	-	-	-	21	(16,359)	(16,338)
Recognition of shares based on share-based equity-settled payment expense	-	-	-	9,530	-	-	-	-	9,530
Issue of convertible bonds	-	-	1,062	-	-	-	-	-	1,062
Transfer to statutory reserve	-	-	-	-	-	17	-	(17)	-
As at 30 September 2021 (Unaudited)	8,016	187,196	8,399	9,530	(11,131)	4,538	(9,440)	(41,683)	155,425
As at 1 July 2022 (Audited)	8,016	187,196	22,217	16,575	(11,131)	4,608	(11,422)	(88,138)	127,921
Loss for the period	-	-	-	-	-	-	-	(7,123)	(7,123)
Other comprehensive income:									
Exchange difference arising on translating of foreign operations	-	-	-	-	-	-	(3,559)	-	(3,559)
Total comprehensive expense for the period	-	-	-	-	-	-	(3,559)	(7,123)	(10,682)
Recognition of shares based on share-based equity-settled payment expense	-	-	-	1,321	-	-	-	-	1,321
Transfer to statutory reserve	-	-	-	-	-	46	-	(46)	-
As at 30 September 2022 (Unaudited)	8,016	187,196	22,217	17,896	(11,131)	4,654	(14,981)	(95,307)	118,560

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2022

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. In June 2021, WNT, a subsidiary of the Company, and Gu'an Fu'ai entered into a buildout management agreement to commence buildout management service.

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

2. BASIS OF PREPARATION

Due to the resolution of the Board passed by the Company on 17 November 2021, the financial year end date will be changed from December 31 to June 30. Accordingly, the financial period reported by the Group for the first quarter of 2022/23 will cover the three months from 1 July 2022 to 30 September 2022, and the comparable data will cover the three months for the corresponding period in 2021.

The Group's unaudited condensed consolidated financial statements for the three months ended 30 September 2022 and the comparable figures for last year have not been audited, which have been prepared in accordance with Hong Kong Financial Reporting Standards 34 ("HKFRS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and disclosure provisions under the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

Other than the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") during the accounting period from 1 July 2022, 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 audited financial statements of the Group for the eighteen months ended 30 June 2022.

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 30 SEPTEMBER 2022

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 30 September 2022 (the "Reporting Period") and the corresponding period of last year, the Group has three reportable segments, which is manufacture and sale of furniture products, data centre business and buildout management service. 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;
- Data centre segment — data centre business in the PRC and Hong Kong; and
- Buildout management service segment — provide engineering and management service for buildout projects in the PRC.

(a) Reportable segment revenue and results

	Manufacture and sale of furniture products		Data centre		Buildout management service		Total	
	For the three months ended 30 September		For the three months ended 30 September		For the three months ended 30 September		For the three months ended 30 September	
	2022	2021	2022	2021	2022	2021	2022	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited and restated)	(Unaudited)	(Unaudited)
Segment revenue								
Sale of furniture products	8,439	11,915	-	-	-	-	8,439	11,915
Information technology management service	-	-	502	261	-	-	502	261
Internet access connection service	-	-	73	137	-	-	73	137
Data centre operating and security service	-	-	-	250	-	-	-	250
Rental of server racks	-	-	5,240	5,120	-	-	5,240	5,120
Buildout management service	-	-	-	-	22,166	30,790	22,166	30,790
	8,439	11,915	5,815	5,768	22,166	30,790	36,420	48,473
Segment results	(4,838)	(5,566)	213	(975)	1,550	2,387	(3,075)	(4,154)
Unallocated expenses							(2,142)	(11,419)
Interest income							756	421
Interest expense on convertible bonds							(2,308)	(1,348)
Loss before income tax							(6,769)	(16,500)

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2022

For the convenience of comparison, the data center business for the corresponding period in 2021 was restated according to the annual audit opinion, and had been sub-divided into the data center segment and the buildout management service segment for examination.

Unallocated expenses during the Reporting Period mainly include share-based equity-settled payments, 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		Buildout management service		Unallocated		Total	
	For the three months ended 30 September		For the three months ended 30 September		For the three months ended 30 September		For the three months ended 30 September		For the three months ended 30 September	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Bank interest income	14	13	43	14	-	-	-	-	57	27
Interest income from other receivables	249	143	283	26	-	-	-	-	532	169
Interest income from loan receivables	-	-	-	-	-	-	756	420	756	420
Interest income arising from unwinding contract assets with significant financing component	59	21	-	-	-	-	-	-	59	21
Interest expense on lease liabilities	1	5	127	270	-	-	-	-	128	275
Interest expense on convertible bonds	-	-	-	-	-	-	2,308	1,348	2,308	1,348
Amortisation of intangible assets	-	-	-	1,402	-	-	-	-	-	1,402
Depreciation of right-of-use assets	97	191	921	3,506	-	-	-	-	1,018	3,697
Depreciation of property, plant and equipment	1,228	1,228	-	-	-	-	-	-	1,228	1,228
Loss on written off and disposal of property, plant and equipment	67	-	-	-	-	-	-	-	67	-
Impairment loss on trade and other receivables	850	1,543	-	-	-	-	-	-	850	1,543
Addition to property, plant and equipment	720	599	-	-	-	-	-	-	720	599
Share-based equity-settled payment expenses	-	-	-	-	-	-	1,369	9,530	1,369	9,530

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2022

(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 30 September	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited and restated)
Revenue from external customers		
The PRC	36,407	48,212
Hong Kong, the PRC	13	261
	36,420	48,473

The geographical location of revenue allocated is based on the location at which the goods were delivered and the services 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 from buildout management service segment are as follows:

	For the three months ended 30 September		From reporting segment
	2022	2021	
	RMB'000	RMB'000	
	(Unaudited)	(Unaudited)	
Customer A	22,166	30,790	Buildout management service

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2022

4. REVENUE

	For the three months ended 30 September	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customer within the scope of HKFRS 15		
Sale of furniture products	8,439	11,915
Information technology management service	502	261
Internet access connection service	73	137
Data centre operating and security service	–	250
Buildout management service	22,166	30,790
	31,180	43,353
Revenue from other sources		
Rental of server racks	5,240	5,120
	36,420	48,473

5. INCOME TAX EXPENSE/(CREDIT)

	For the three months ended 30 September	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
— Tax for the period	414	269
Deferred tax		
— Current period	(60)	(410)
	354	(141)

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.

Provision was made for Hong Kong Profits Tax for the Reporting Period and the corresponding period of last year on a two-tiered profit tax basis, with provision for the first HK\$2 million of estimated assessable profits at a rate of 8.25%, and the estimated assessable profit in excess of HK\$2 million was provided at a rate of 16.5%.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2022

Provision for the enterprise income tax in the PRC was calculated on a statutory tax rate of 25% of the estimated assessable profit as determined in accordance with the relevant income tax law in the PRC. Pursuant to the "Notice on Implementing Inclusive Tax Reduction and Exemption Policy for Small and Micro Enterprises (《關於實施小微企業普惠性稅收減免政策的通知》)", the Group's PRC entities are qualified as small and micro enterprises with an annual taxable income of RMB1 million or less, and are entitled to a 20% tax credit for their tax payable.

During the Reporting Period and the corresponding period of last year, except for individual subsidiaries that have made profits and have accrued income tax according to regulations, other subsidiaries are not required to pay corporate income tax due to losses or profits but need to make up for the losses for previous years.

6. DIVIDENDS

The Board does not recommend the payment of dividend for the results in respect of the first quarter for the three months ended 30 September 2022 (corresponding period in 2021: Nil). No shareholder has agreed to waive dividends.

7. 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 907,333,333 ordinary shares in issue for the three months ended 30 September 2022 and 2021.

	For the three months ended 30 September	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The loss used to calculate the basic loss per share	(7,123)	(16,359)
	'000 shares	'000 shares
Number of shares used to calculate the basic loss per share	907,333	907,333

Note: The calculation of the basic loss per share attributable to the owners of the Company is based on the loss for the Reporting Period of approximately RMB7.123 million (for the corresponding period of last year: a loss of approximately RMB16.359 million) and the weighted average number of 907,333,333 ordinary shares of the Company in issue (907,333,333 ordinary shares of the Company in issue for the corresponding period of last year).

There were no outstanding convertible bonds and share options which had anti-dilutive effect on the basic loss per share during the Reporting Period and the corresponding period of last year. Accordingly, the diluted loss per share was the same as the basic loss per share.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

In addition, the Group started to engage in data centre business in the PRC and Hong Kong from 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. In June 2021, the Group commenced to carry out buildout management service business.

Manufacture and sale of furniture products business

During the Reporting Period, the Group achieved a revenue from manufacture and sale of furniture products segment of approximately RMB8.4 million, representing a decrease of approximately RMB3.5 million or approximately 29.2% as compared to the corresponding period of last year. Due to the prolonged novel coronavirus epidemic in various areas of China since January 2022, local governments have implemented multiple quarantine and pandemic control measures to control the epidemic in a timely manner, causing inevitable negative impact to the economy. The impact on the furniture industry has exceeded our previous expectations and the furniture industry is facing further reshuffle as there is a depression in the commercial real estate investment. During the Reporting Period, affected by the high temperature power curtailment policy of Sichuan Province in August, the power outage was suspended for half a month, and the half-month lockdown of Sichuan Province in September under the novel coronavirus epidemic, the Group's furniture production line in Chengdu was in a semi-shutdown state for almost the entire quarter.

MANAGEMENT DISCUSSION AND ANALYSIS

Under the above circumstance, the Group decided to focus on consolidating the markets in the southwestern regions including Sichuan Province, together with coordinating the supply chain relationship between customers and suppliers by paying extra installation and delivery fees, loading and unloading expenses in order to ensure on time delivery of customers' orders in Sichuan Province. At the same time, the Company strictly controls various costs and expenses, and strives to eliminate the influence of various adverse factors. During the Reporting Period, the loss before income tax of manufacture and sale of furniture products segment was approximately RMB4.8 million (corresponding period of last year: loss before income tax of approximately RMB5.6 million).

Data centre business

During the Reporting Period, the Group achieved a revenue from the existing business of the data centre segment of approximately RMB5.8 million, representing a slight increase of approximately RMB0.05 million or approximately 0.8% as compared to the corresponding period of last year. Although the current revenue from the data centre segment is mainly the rental income from server rack rentals, the business is relatively stable. However, due to the pessimistic sentiment of the novel coronavirus epidemic that has lasted for more than two years, some customer did not renew their leases upon expiry or were undergoing business downsizing. As such, the Company strived to maintain existing long-term customers through keeping good communication with customers and enhancing customer stickiness. Based on the efforts above, the Company tapped into the inherent potential of long-term customers and assisted in their expansion and growth while endeavouring to develop new customer bases through various channels. Currently, the business is still slowly recovering. During the Reporting Period, the existing business of the data centre segment has contributed approximately RMB0.2 million to the Group's profit before income tax (corresponding period of last year: loss before income tax of approximately RMB1.0 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Buildout management service business

In June 2021, a subsidiary of the Group, 北京萬諾通科技有限公司 (Beijing Wannuotong Technology Company Limited, “WNT”), entered into a buildout management agreement with Gu’an Fu’ai Electronics Co. Ltd. (“Gu’an Fu’ai”), to provide engineering and management service as construction manager for buildout construction works and the profit of the relevant business is recognised according to the progress of the buildout management project. During the Reporting Period, the Group recognised a gross profit of approximately RMB2.1 million (corresponding period of last year: approximately RMB2.5 million).

During the Reporting Period, the Group recorded a revenue of approximately RMB36.4 million, representing a decrease of approximately RMB12.1 million or approximately 24.9% as compared to the corresponding period of last year. During the Reporting Period, the Group recorded a loss of approximately RMB7.1 million, as compared with the loss of approximately RMB16.4 million recorded by the Group for the corresponding period of last year. For details on the decrease of loss and analysis of revenue, cost, fees and other indicators for the Reporting Period, please refer to the section headed “Management Discussion and Analysis — Financial Review” of this announcement.

PROSPECTS

Looking forward, in the face of the relentless outbreak of the novel coronavirus epidemic, the escalating Russia-Ukraine war and the continuous restrictions on China’s economy imposed by the US, it seems that the outbreak of global inflation crisis and economic recession are inevitable. The slump in real estate has made the entire furniture market very weak, and the Group still faces severe challenges in the future. Despite this, the Group remains confident in its efforts for improving the current operating conditions of the furniture segment, and will ensure that the market share in the Southwest market and a reasonable profit margin to achieve a balance by making use of its staff incentive mechanism in a timely manner.

In respect of data centre segment, apart from maintaining the existing business, the Company has been exploring opportunities for the expansion of the business scope of the Group to further improve the profitability of its data centre business. The Company will grasp the strategic opportunity arising from the development of data centers by the Chinese government in an effort to consolidate its strengths and capability, take its business scale to a higher level and increase its market share and competitiveness.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has commenced its buildout management services in June 2021, and the experience and expertise related to the buildout projects will constitute part of the track record of WNT, which may bring more business opportunities. Meanwhile, WNT will be able to establish a business network with professional investors, contractors and suppliers to further develop its data centre business, such as providing value-added services and installation and maintenance services to other data centres.

We believe that the above initiatives will effectively increase the future profitability of the Group, and will have a positive impact on its profitability and asset operation in the coming years.

FINANCIAL REVIEW

Revenue

During the Reporting Period, the Group achieved a revenue of approximately RMB36.4 million, representing a decrease of approximately RMB12.1 million or approximately 24.9% as compared to the corresponding period of last year. Of which:

Manufacture and sale of furniture products segment: during the Reporting Period, the Group achieved a revenue from sales of furniture products of approximately RMB8.4 million, representing a decrease of approximately RMB3.5 million or approximately 29.2% as compared to the corresponding period of last year, which was mainly attributable to the facts that:

- (i) Revenue from the five southwestern provinces and regions such as Sichuan and Chongqing (including the Chongqing Branch Office) decreased by approximately RMB3.2 million or 27.7% as compared to the corresponding period of last year. During the Reporting Period, except for the revenue of Sichuan Province, which increased by approximately RMB1.2 million or 18.0% as compared with the corresponding period of last year, other southwestern provinces such as Chongqing City and Guizhou Province all experienced a significant decrease year-on-year.

MANAGEMENT DISCUSSION AND ANALYSIS

As a result of intensified market competition, the overall demand of the furniture industry was weak, and customers have become more cautious in purchasing or replacing furniture. Together with the effects a half-month suspension of power outage of Sichuan Province in August, and the half-month lockdown of Sichuan Province in September under the novel coronavirus epidemic during the Reporting Period, the Group's furniture production line in Chengdu was in a semi-shutdown state for almost the entire quarter. Under this circumstance, the Group decided to focus on consolidating the markets in the southwestern regions including Sichuan Province, together with coordinating the supply chain relationship between customers and suppliers by paying extra installation and delivery fees, loading and unloading expenses in order to ensure on time delivery of customers' orders in Sichuan Province.

- (ii) The sales data of other provinces and regions other than the five southwest provinces and regions are relatively small in both years, of which the revenue of Beijing City and Zhejiang Province has dropped significantly as compared to last year; while the revenue of Guangdong Province has improved as compared to last year, which has made up for the decrease in revenue from the manufacture and sale of furniture products segment to a certain extent; and

Data centre segment: during the Reporting Period, the existing business of the data centre segment realised a revenue of approximately RMB5.8 million, representing a slight increase of approximately RMB0.05 million or approximately 0.8% as compared to the corresponding period of last year. Due to the impact of novel coronavirus epidemic, some customers' leases were not renewed upon expiry. Currently, the business is still slowly recovering. The total revenue of new customers is slightly more than the revenue lost from the existing customers, both of which were the main reasons for the increase in revenue of the data centre segment year-on-year.

Buildout management service segment: during the Reporting Period, the Group recognised the revenue generated from the buildout management services of approximately RMB22.2 million, representing a decrease of approximately RMB8.6 million or 28.0% as compared to the corresponding period of last year. The decrease in the revenue generated from the buildout management services was the main contributor to the decline in the Group's revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

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, amortisation of intangible assets, utilities bills, maintenance fee and rent; and (v) cost of the buildout management services. The Group's cost of sales for the Reporting Period was approximately RMB34.4 million, representing a decrease of approximately RMB12.1 million or 26.0% as compared to approximately RMB46.5 million for the corresponding period of last year. Of which:

Manufacture and sale of furniture products segment: cost of sales for the Reporting Period was approximately RMB9.0 million, representing a decrease of approximately RMB3.4 million or 27.2% as compared to the corresponding period of last year. The cost of sales dropped due to the decline in sales, but the decline in cost of sales was smaller than the decline in revenue, resulting in a larger decline 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 RMB3.6 million (during the Reporting Period, the provision for loss of inventories decreased by approximately RMB0.3 million as compared to the corresponding period of last year, further decreased the cost of materials of sales); (ii) wages of production staff increased by approximately RMB0.2 million, which was mainly attributable to the increase in temporary overtime wages in order to ensure on-time delivery of orders; and (iii) other production expenses were generally the same as compared to the corresponding period of last year.

Data centre segment: cost of sales of the existing business for the Reporting Period was approximately RMB5.3 million, representing a decrease of approximately RMB0.5 million or 9.3% as compared to the corresponding period of last year. The decrease in cost of sales were mainly attributable to the facts that: (i) the cost of sales for the corresponding period of last year included the amortisation of the intangible assets arising from the acquisition of the data centre of approximately RMB1.402 million in the corresponding period of last year, while the above mentioned intangible assets has completed the amortisation last year, so there were no expenses related to the amortisation during the Reporting Period; and (ii) increase in wages and other overhead as compared to the corresponding period of last year, which partially offset by the decrease in cost of sales resulting from (i) above.

MANAGEMENT DISCUSSION AND ANALYSIS

Buildout management service segment: during the Reporting Period, the Group recognised the cost of the buildout management services of approximately RMB20.1 million, representing a decrease of approximately RMB8.2 million or 29.0% as compared to the corresponding period of last year, which was mainly attributable to the decrease of the recognition of the revenue in relation to buildout projects during the Reporting Period.

Gross profit

Gross profit slightly increased to approximately RMB1.994 million for the Reporting Period from approximately RMB1.93 million for the corresponding period of last year. Of which:

Manufacture and sale of furniture products segment: During the Reporting Period, the gross loss was approximately RMB546,000, and gross loss increased by approximately RMB124,000 or 29.3% year-on-year. The gross profit margin of furniture decreased from approximately -3.5% in the corresponding period of last year to approximately -6.5% during the Reporting Period. As a result of the weakening of overall demand, the market competition was intensified; customers have become more cautious in purchasing or replacing furniture. Together with the effects a half-month suspension of power outage of Sichuan Province in August, and the half-month lockdown of Sichuan Province in September under the novel coronavirus epidemic during the Reporting Period, the Group's furniture production line in Chengdu was in a semi-shutdown state for almost the entire quarter. The sales revenue base is small, but certain cost of sales will not decline in proportion to sales income. As such, the Group adhered to its operation strategies last year and continued to compete for more orders at lower product prices in order to maintain effective operations.

MANAGEMENT DISCUSSION AND ANALYSIS

Data centre segment: gross profit of the existing business for the Reporting Period was approximately RMB490,000. Gross profit increased by approximately RMB590,000 as compared to the corresponding period of last year. The increase in gross profit margin from approximately -1.7% for the corresponding period of last year to approximately 8.4% for the Reporting Period were mainly attributable to the facts that: (i) the amortisation of the intangible assets arising from the acquisition of the data centre of approximately RMB1.402 million in the corresponding period of last year, while the above mentioned intangible assets has completed the amortisation last year, so there were no expenses related to the amortisation during the Reporting Period; and (ii) increase in wages and other overhead as compared to the corresponding period of last year, which partially offset by the increase in gross profit resulting from (i) above.

Buildout management service segment: during the Reporting Period, the Group recognised the gross profit of the buildout management services of approximately RMB2.05 million, representing a decrease of approximately RMB402,000 or 16.4% as compared to the corresponding period of last year, which was mainly attributable to the decrease in the recognition of revenue relevant to buildout projects as compared to the corresponding period of last year.

Other income, net

During the Reporting Period, the Group's other income, net increased by approximately 123.1% to approximately RMB1.651 million from approximately RMB740,000 for the corresponding period of last year, which were mainly attributable to the facts that: (i) interest income of loan receivable during the Reporting Period increased by approximately RMB336,000 as compared to the corresponding period of last year, which was mainly attributable to the increase in interests of loans of RMB50.0 million granted by the Company to Mega Data Investment Limited ("SPV"). (ii) interest income from other receivables during the Reporting Period increased by approximately RMB363,000 as compared to the corresponding period of last year, mainly attributable to interest income from other receivables of data centre segment increased approximately RMB256,000, and dividend income from financial assets at fair value through profit or loss increased approximately RMB107,000; and (iii) the total increase of subsidy and other income, interest income arising from unwinding contract assets with significant financing component, interest income of deposit, etc. was approximately RMB212,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution expenses

During the Reporting Period, the Group's selling and distribution expenses increased by approximately RMB0.3 million or 18.5% from approximately RMB1.7 million to approximately RMB2.0 million as compared to the corresponding period of last year, of which: the data centre segment, the buildout management service segment did not incur any selling expenses during the Reporting Period. The increase in the selling and distribution expenses of the manufacture and sale of furniture products segment was mainly due to the fact that: the installation and delivery fees, loading and unloading expenses incurred increased by approximately RMB0.4 million since the Company wanted to ensure to deliver customer orders as scheduled under the impact of the power outage of Sichuan Province was suspended for half a month and the half-month lockdown of Sichuan Province in September under the novel coronavirus epidemic during the Reporting Period. During the Reporting Period, the increase in certain selling and distribution expenses was partially offset by the decrease in renovation expenses of showroom as compared to the corresponding period of last year.

Administrative and other expenses

Administrative and other expenses of the Group during the Reporting Period decreased by approximately RMB9.8 million or 62.4% from approximately RMB15.8 million to approximately RMB6.0 million, of which: administrative and other expenses of the data centre segment and buildout management service segment amounted to approximately RMB1.0 million, representing an increase of approximately RMB0.2 million or 24.1% as compared to the corresponding period of last year. The increases were mainly attributable to the increase in legal and professional fees incurred during the Reporting Period. Excluding the administrative expenses incurred from the data centre segment and buildout management service segment, the Group's administrative and other expenses for the Reporting Period amounted to approximately RMB5.0 million, representing a decrease of approximately RMB10.0 million or 67.1% as compared to the corresponding period of last year. The decreases were mainly attributable to the facts that: (i) the recognition of share-based equity settled payment expenses of the Company was decreased by approximately RMB8.2 million as compared to the corresponding period of last year; (ii) the decrease of approximately RMB0.7 million in the provision for ECLs of trade and other receivables and prepayments of the Company as compared to the corresponding period of last year; and (iii) the decrease in legal and professional fees, tax year-on-year during the Reporting Period, together with the Group's stringent control of daily administrative expenses, resulting the decrease in expenses such as office expenses, entertainment expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance Costs

The Group incurred finance costs of approximately RMB2.4 million for the Reporting Period, while the finance costs of the Group in corresponding period of last year was approximately RMB1.6 million, representing a year-on-year increase of approximately 50.1%. The increase of the Group's finance costs was mainly due to: (i) the interest expense arising from the issuance of convertible bonds by the Group increased by approximately RMB1.0 million as compared to the corresponding period of last year, which was mainly attributable to the completion of the placing of convertible bonds with a total principal amount of US\$8 million on August 6, 2021, and the imputed interest expense incurred increased by approximately RMB1.0 million year-on-year, as of the Reporting Period; (ii) the interest expense on lease liabilities incurred under the HKFRS 16 decreased by approximately RMB0.2 million year-on-year as compared to the corresponding period of last year.

Income Tax Expense

The Group's income tax expense for the Reporting Period was approximately RMB354,000, as compared to the income tax credit of approximately RMB141,000 in the corresponding period of last year. The income tax expense of the Group were due to the facts that: (i) during the Reporting Period, the subsidiaries under data centre segment began to accrue and pay income tax of approximately RMB414,000 after making up for the losses of the previous years. Apart from that, the Group was in a loss for the corresponding period, 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 the acquisition of data centre segment and the fair value adjustment of assets caused by the acquisition of subsidiaries in previous years decreased significantly during the Reporting Period as compared to the corresponding period of last year.

PLEDGE OF ASSETS

The Company entered into an agreement with 東莞市耀邦集團有限公司 (Dongguan Yaobang Group Company Limited, "**Yaobang Group**") on 25 January 2022, whereby the Company will provide a parcel of land and buildings located at Chengdu City as a pledge for a term of 36 months, to assist Yaobang Group in securing financing from the bank(s). At the extraordinary general meeting held on 12 April 2022 held by the Company, it was resolved to approve, confirm and ratify the above agreement. For details of the agreement, please refer to the announcement of the Company dated 25 January 2022 and the circular dated 25 March 2022 of the Company.

On 25 May 2022, the financing arrangement between Yaobang Group and a bank was finalized, which authorized its subsidiary to enter into a borrowing agreement with ICBC for a working capital amounted RMB45.0 million with a loan term of 12 months from the date of withdrawal.

Other than that, the Group had no guarantee contract in respect of asset pledge.

OTHER INFORMATION

SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

During the Reporting Period, the Group has no significant events that shall be disclosed but had not been disclosed.

EVENTS AFTER REPORTING PERIOD

As at the date of this announcement, there were no events that shall be disclosed but had not been disclosed.

AUDIT COMMITTEE

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

The Audit Committee comprises three independent non-executive Directors, namely Mr. Chan Wing Kit, Ms. Cao Shao Mu and Mr. Li Saint Chi Sainti. 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 three months ended 30 September 2022. The Audit Committee is of the view that the unaudited consolidated results are in compliance with the applicable accounting standards, the GEM Listing Rules and other legal requirements, and that the sufficient disclosure was made.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct (“**Code of Conduct**”) regarding securities transactions by the Directors. The Company has confirmed, having made specific enquiry of the Directors, that all the Directors have complied with the Code of Conduct throughout the three months ended 30 September 2022 and up to the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period from the Listing Date to the Reporting Period, the Company did not redeem any of its shares, and neither the Company nor any of its subsidiaries have purchased or sold any shares of the Company.

OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

The Group is committed to ensuring high standards of corporate governance and business practices. The Company's corporate governance practices are based on the Corporate Governance Code (the "**CG Code**") as set out in Appendix 15 of the GEM Listing Rules. During the period from the Listing Date to the Reporting Period, 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, 14 November 2022

As at the date of this announcement, the executive Directors are Mr. Yi Cong, Mr. Liang Xing Jun, Mr. Ma Gary Ming Fai and Mr. Lai Ningning; the non-executive Director is Mr. Luo Guoqiang; and the independent non-executive Directors are Mr. Chan Wing Kit, Ms. Cao Shao Mu and Mr. Li Saint Chi Sainti.

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