

ZHI SHENG GROUP HOLDINGS LIMITED

智昇集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8370)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2023

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FINANCIAL RESULTS

The board of Directors of the Company (the “**Board**”) is pleased to announce the unaudited condensed consolidated results of the Group for the three months and the six months ended 31 December 2023, together with the comparative unaudited figures for Year 2022 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS AND THE SIX MONTHS ENDED 31 DECEMBER 2023

		Ended 31 December		Ended 31 December	
		Three	Three	Six	Six
		months	months	months	months
		2023	2022	2023	2022
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	4	25,492	34,339	36,051	70,759
Cost of sales		(21,413)	(31,028)	(30,440)	(65,454)
Gross profit		4,079	3,311	5,611	5,305
Other income, net	5	827	1,388	1,602	3,039
Selling and distribution expenses		(2,169)	(1,573)	(3,458)	(3,596)
Administrative and other expenses		(4,320)	(5,286)	(8,331)	(10,391)
Impairment loss on assets		(1,268)	(391)	(1,308)	(1,241)
Operating loss		(2,851)	(2,551)	(5,884)	(6,884)
Finance costs	6	(2,739)	(2,560)	(5,501)	(4,996)
Loss before income tax		(5,590)	(5,111)	(11,385)	(11,880)
Income tax (expenses)/credit	7	-	(1)	-	(355)
Loss for the period attributable to the owners of the Company		(5,590)	(5,112)	(11,385)	(12,235)
Other comprehensive income/ (expenses) for the period after tax:					
Item that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations		1,801	1,664	1,529	(1,895)
Total comprehensive expenses for the period attributable to the owners of the Company		(3,789)	(3,448)	(9,856)	(14,130)
Loss per share	9				
— Basic and diluted (RMB cents)		(0.62)	(0.56)	(1.25)	(1.35)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023

		As at 31 December 2023 RMB'000 (Unaudited)	As at 30 June 2023 RMB'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		2,300	2,656
Right-of-use assets		1,665	3,326
Goodwill		23,109	23,109
Total non-current assets		27,074	29,091
Current assets			
Inventories		10,399	10,338
Contract assets		11,222	11,587
Trade, lease and other receivables	10	27,025	39,304
Loan receivables		50,000	50,000
Cash and cash equivalents		34,804	33,761
Total current assets		133,450	144,990
Current liabilities			
Contract liabilities		2,101	3,971
Trade and other payables	11	36,590	39,614
Lease liabilities		1,922	3,739
Convertible bonds	13	80,665	77,899
Tax payable		1,477	1,509
Total current liabilities		122,755	126,732
Net current assets		10,695	18,258
Total assets less current liabilities		37,769	47,349

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023

	As at 31 December 2023 RMB'000 (Unaudited)	As at 30 June 2023 RMB'000 (Audited)
	<i>Notes</i>	
Non-current liabilities		
Lease liabilities	–	–
Deferred tax liabilities	–	–
Total non-current liabilities	–	–
NET ASSETS	37,769	47,349
EQUITY		
Equity attributable to the owners of the Company		
Share capital	8,016	8,016
Reserves	29,753	39,333
TOTAL EQUITY	37,769	47,349

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2023

	Share capital	Share premium	Convertible bond 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 2022 (Unaudited)	8,016	187,196	22,217	16,575	(11,131)	4,608	(11,422)	(88,138)	127,921
Loss for the year	-	-	-	-	-	-	-	(12,235)	(12,235)
Other comprehensive income:									
Exchange difference on translating foreign operations	-	-	-	-	-	-	(1,895)	-	(1,895)
Total comprehensive expense for the period	-	-	-	-	-	-	(1,895)	(12,235)	(14,130)
Recognition of equity-settled share-based payment expense	-	-	-	2,091	-	-	-	-	2,091
Transfer to statutory reserve	-	-	-	-	-	107	-	(107)	-
As at 31 December 2022 (Unaudited)	8,016	187,196	22,217	18,666	(11,131)	4,715	(13,317)	(100,480)	115,882
As at 1 July 2023 (Audited)	8,016	187,196	22,217	20,179	(11,131)	4,758	(16,402)	(167,484)	47,349
Loss for the period	-	-	-	-	-	-	-	(11,385)	(11,385)
Other comprehensive income:									
Exchange difference on translating foreign operations	-	-	-	-	-	-	1,529	-	1,529
Total comprehensive expense for the period	-	-	-	-	-	-	1,529	(11,385)	(9,856)
Recognition of equity-settled share-based payment expense	-	-	-	276	-	-	-	-	276
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-
As at 31 December 2023 (Unaudited)	8,016	187,196	22,217	20,455	(11,131)	4,758	(14,873)	(178,869)	37,769

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2023

	Ended 31 December	
	Six months 2023 RMB'000 (Unaudited)	Six months 2022 RMB'000 (Unaudited)
Cash flows from operating activities		
Loss before income tax	(11,385)	(11,880)
Adjustments for:		
Depreciation of right-of-use assets	1,661	1,923
Depreciation of property, plant and equipment	410	2,450
Loss on write-off and disposal of property, plant and equipment	–	55
Write-down of inventories to net realisable value	(194)	2,257
Impairment loss on trade and other receivables	1,308	1,241
Recognition of equity-settled share-based payment expense	276	2,091
Bank interest income	(160)	(103)
Interest income from loan receivables	(1,497)	(1,537)
Interest income from other receivables	–	(828)
Interest income arising from unwinding contract assets with significant financing component	(1)	(69)
Finance costs	5,501	4,996
Operating profit before working capital changes	(4,081)	596
Decrease/(increase) in inventories	133	(3)
Decrease in contract assets	366	27,813
Decrease/(increase) in trade and other receivables	12,468	(868)
(Decrease) in contract liabilities	(1,870)	(30,000)
(Decrease) in trade and other payables	(3,024)	(4,733)
Cash generated from/used in operations	3,992	(7,195)
Income tax paid	(6)	–
Bank interest received	160	103
Net cash generated from/used in operating activities	4,146	(7,092)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2023

	Ended 31 December	
	Six months 2023	Six months 2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash flows from investing activities		
Purchase of debt instruments at amortised cost	–	(11,000)
Redemption of debt instruments at amortised cost	–	24,000
Interest received	–	828
Purchase of property, plant and equipment	(54)	(798)
Proceeds from disposal of property, plant and equipment	–	12
Net cash used in/generated from investing activities	(54)	13,042
Cash flows from financing activities		
Interest paid on convertible bonds	(1,131)	(1,108)
Repayment of principal portion of lease liabilities	(1,817)	(1,823)
Interest paid on lease liabilities	(111)	(229)
Net cash generated from financing activities	(3,059)	(3,160)
Net (decrease)/increase in cash and cash equivalents	1,033	2,790
Cash and cash equivalents at the beginning of the period	33,761	28,936
Effect of foreign exchange rate changes on cash and cash equivalents	10	444
Cash and cash equivalents at the end of the period	34,804	32,170
Analysis of balances of cash and cash equivalents		
Cash and bank balances at the end of the period	34,804	32,170

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2023

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 and the Group are principally engaged in manufacture and sales of furniture products and data centre business in the PRC. In June 2021, 北京萬諾通科技有限公司 (Beijing Wannuotong Technology Company Limited*) ("WNT"), a subsidiary of the Company, and Gu'an Fu'ai Electronics Co. Ltd. ("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

The financial period reported by the Group for the 2023/24 Interim report will cover the six months from 1 July 2023 to 31 December 2023, and the comparable data will cover the six months for the corresponding period in 2022.

The Group's unaudited condensed consolidated financial statements for the six months ended 31 December 2023 and the comparable figures for last year have not been audited, which have been prepared in accordance with Hong Kong Accounting Standards 34 ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and disclosure provisions under the GEM Listing Rules 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 2023, 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 year ended 30 June 2023.

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.

* For identification purpose only

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2023

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 six months ended 31 December 2023 (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, provide information technology management service in 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 six months ended		For the six months ended		For the six months ended		For the six months ended	
	31 December		31 December		31 December		31 December	
	2023	2022	2023	2022	2023	2022	2023	2022
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
Segment revenue								
Sale of furniture products	25,055	26,888	-	-	-	-	25,055	26,888
Information technology management service	-	-	247	1,027	-	-	247	1,027
Internet access connection service	-	-	106	153	-	-	106	153
Data centre operating and security service	-	-	85	-	-	-	85	-
Rental of server racks	-	-	10,558	10,953	-	-	10,558	10,953
Buildout management service	-	-	-	-	-	31,738	-	31,738
	25,055	26,888	10,996	12,133	-	31,738	36,051	70,759
Segment results	(5,229)	(6,754)	(472)	(81)	-	1,520	(5,701)	(5,315)
Unallocated expenses*							(1,790)	(3,697)
Other income							1,496	1,899
Interest expense on convertible bonds							(5,390)	(4,767)
Loss before income tax							(11,385)	(11,880)

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2023

The Group had no inter-segment transactions for the six months ended 31 December 2023 and the corresponding period of last year.

Unallocated expenses during the Reporting Period and the corresponding period of last year mainly include expenses of the Group's office in Hong Kong, share-based equity-settled payments etc., which were not directly attributable to the business activities of any operating segment.

(b) Reportable segment assets and liabilities

	Manufacture and sale of furniture products		Data centre		Buildout management service		Total	
	As at 31 December 2023 RMB'000 (Unaudited)	As at 30 June 2023 RMB'000 (Audited)	As at 31 December 2023 RMB'000 (Unaudited)	As at 30 June 2023 RMB'000 (Audited)	As at 31 December 2023 RMB'000 (Unaudited)	As at 30 June 2023 RMB'000 (Audited)	As at 31 December 2023 RMB'000 (Unaudited)	As at 30 June 2023 RMB'000 (Audited)
Segment assets	42,660	48,984	52,603	57,849	10,000	10,000	105,263	116,833
Loan receivables							50,000	50,000
Cash and cash equivalents							2,137	5,485
Unallocated corporate assets							3,124	1,763
							160,524	174,081
Segment liabilities	(12,511)	(13,596)	(25,443)	(30,696)	(1,645)	(1,645)	(39,599)	(45,937)
Convertible bonds							(80,665)	(77,899)
Unallocated corporate liabilities							(2,491)	(2,896)
							(122,755)	(126,732)

Segment assets excluded loan receivables and cash and cash equivalents which were held as general working capital of the Group as a whole and unallocated corporate assets representing the corporate assets of the Group's office in Hong Kong which were not directly attributable to the business activities of any operating segment.

Segment liabilities excluded convertible bonds and unallocated corporate liabilities representing the liabilities of the Group's office in Hong Kong which were not directly attributable to the business activities of any operating segment.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2023

(c) Other segment information

	Manufacture and sale of furniture products		Data centre		Buildout management service		Unallocated		Total	
	For the six months ended 31 December		For the six months ended 31 December		For the six months ended 31 December		For the six months ended 31 December		For the six months ended 31 December	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
	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	16	19	84	84	-	-	60	-	160	103
Interest income from other receivables	-	432	-	396	-	-	-	-	-	828
Interest income from loan receivables	-	-	-	-	-	-	1,497	1,537	1,497	1,537
Interest income arising from unwinding contract assets with significant financing component	1	69	-	-	-	-	-	-	1	69
Interest expense on lease liabilities	-	9	111	220	-	-	-	-	111	229
Interest expense on convertible bonds	-	-	-	-	-	-	5,390	4,767	5,390	4,767
Amortisation of intangible assets	-	-	-	-	-	-	-	-	-	-
Depreciation of right-of-use assets	-	249	1,661	1,674	-	-	-	-	1,661	1,923
Depreciation of property, plant and equipment	410	2,450	-	-	-	-	-	-	410	2,450
Loss on written off and disposal of property, plant and equipment	-	55	-	-	-	-	-	-	-	55
Impairment loss on trade and other receivables	1,114	680	194	561	-	-	-	-	1,308	1,241
Addition to property, plant and equipment	54	798	-	-	-	-	-	-	54	798
Addition to right-of-use assets	-	449	-	-	-	-	-	-	-	449

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2023

(d) Geographical information

The Company is an investment holding company incorporated in the Cayman Islands and the principal place of the Group's operations is in the PRC. Accordingly, the management determines the Group is domiciled in the PRC.

	Ended 31 December		Ended 31 December	
	Three months 2023 RMB'000 (Unaudited)	Three months 2022 RMB'000 (Unaudited)	Six months 2023 RMB'000 (Unaudited)	Six months 2022 RMB'000 (Unaudited)
Revenue from external customers				
The PRC	25,478	34,325	36,023	70,732
Hong Kong, the PRC	14	14	28	27
	25,492	34,339	36,051	70,759

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.

(e) 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 and the corresponding period of last year, revenue attributed to Customer A, Customer B, Customer C, Customer D from manufacture and sale of furniture products, and Customer E from buildout management service segment are as follows:

	Ended 31 December		Ended 31 December		From reporting segment
	Three months 2023 RMB'000 (Unaudited)	Three months 2022 RMB'000 (Unaudited)	Six months 2023 RMB'000 (Unaudited)	Six months 2022 RMB'000 (Unaudited)	
Customer A	4,910	–	4,910	–	Manufacture and sale of furniture products
Customer B	3,518	N/A	4,552	N/A	Manufacture and sale of furniture products
Customer C	2,770	N/A	N/A	N/A	Manufacture and sale of furniture products
Customer D	N/A	4,251	N/A	N/A	Manufacture and sale of furniture products
Customer E	–	9,572	–	31,738	Buildout management service

N/A: represents transactions during the Reporting Period did not exceed 10% of the Group's revenue.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2023

4. REVENUE

	Ended 31 December		Ended 31 December	
	Three months	Three months	Six months	Six months
	2023	2022	2023	2022
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue from contracts with customer within the scope of HKFRS 15				
Sale of furniture products	19,968	18,449	25,055	26,888
Information technology management service	123	525	247	1,027
Internet access connection service	53	80	106	153
Data centre operating and security service	43	–	85	–
Buildout management service	–	9,572	–	31,738
	20,187	28,626	25,493	59,806
Revenue from other sources				
Rental of server racks	5,305	5,713	10,558	10,953
	25,492	34,339	36,051	70,759

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

	Ended 31 December		Ended 31 December	
	Three months	Three months	Six months	Six months
	2023	2022	2023	2022
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Timing of revenue recognition				
At a point in time	19,968	18,449	25,055	26,888
Over time	219	10,177	438	32,918
	20,187	28,626	25,493	59,806

During the Reporting Period, the Group's revenue was divided into three parts by reporting segment: sale of furniture products, data centre business and buildout management service with an analysis as follows:

	Ended 31 December		Ended 31 December	
	Three months	Three months	Six months	Six months
	2023	2022	2023	2022
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sale of furniture products	19,968	18,449	25,055	26,888
Data centre business	5,524	6,318	10,996	12,133
Buildout management service	–	9,572	–	31,738
	25,492	34,339	36,051	70,759

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2023

5. INCOME TAX EXPENSE/(CREDIT)

	Ended 31 December		Ended 31 December	
	Three months 2023 RMB'000 (Unaudited)	Three months 2022 RMB'000 (Unaudited)	Six months 2023 RMB'000 (Unaudited)	Six months 2022 RMB'000 (Unaudited)
Current tax				
— Tax for the period	-	60	-	474
Deferred tax				
— Current period	-	(59)	-	(119)
	-	1	-	355

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%.

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 25% tax credit for their tax payable and at the tax rate of 20%.

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.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2023

6. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2023 (corresponding period in 2022: 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 and ordinary shares in issue (both amounted 907,333,333) for the six months ended 31 December 2023 and 2022.

	Ended 31 December		Ended 31 December	
	Three months 2023 RMB'000 (Unaudited)	Three months 2022 RMB'000 (Unaudited)	Six months 2023 RMB'000 (Unaudited)	Six months 2022 RMB'000 (Unaudited)
The loss used to calculate the basic loss per share	(5,590)	(5,112)	(11,385)	(12,235)
	'000 shares	'000 shares	'000 shares	'000 shares
Number of shares used to calculate the basic loss per share	907,333	907,333	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 six months ended 31 December 2023 of approximately RMB11.385 million (corresponding period of last year: a loss of approximately RMB12.235 million), and on the weighted average number of 907,333,333 ordinary shares of the Company in issue (corresponding period of last year: 907,333,333).

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.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2023

8. TRADE, LEASE AND OTHER RECEIVABLES

	As at 31 December 2023 RMB'000 (Unaudited)	As at 30 June 2023 RMB'000 (Audited)
Trade receivables (Note (a))	9,873	13,174
Lease receivables (Note (b))	3,130	4,761
Other receivables (Note (c))	13,456	12,044
Deposits	1,076	1,625
Prepayments (Note (d))	22,866	29,740
	50,401	61,344
Less: loss allowances	(23,376)	(22,040)
	27,025	39,304

(a) Trade receivables

	As at 31 December 2023 RMB'000 (Unaudited)	As at 30 June 2023 RMB'000 (Audited)
Total trade receivables	9,873	13,174
Less: loss allowances	(6,572)	(6,867)
Trade receivables, net	3,301	6,307

As at 31 December 2023, included in total trade receivables are trade receivables of RMB6,886,000 (30 June 2023: RMB9,940,000) and quality assurance deposit receivables of RMB1,038,000 (30 June 2023: RMB1,208,000) from manufacture and sale of furniture products. The credit period granted to customers on product sales normally varies according to the terms of the contract, ranging from 30 days or up to 180 days from the invoice date.

As at 31 December 2023, included in total trade receivables are trade receivables of RMB1,949,000 (30 June 2023: RMB1,540,000) from data centre segment. The credit periods on service contracts with customers are normally within 30 days or up to 90 days from the invoice date, depending on the terms of the contracts.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2023

The ageing analysis of trade receivables as of the end of the Reporting Period, based on invoice dates, is as follows:

	As at 31 December 2023 RMB'000 (Unaudited)	As at 30 June 2023 RMB'000 (Audited)
Within 3 months	1,898	4,768
More than 3 months	7,975	8,406
	9,873	13,174

The ageing analysis of trade receivables as of the end of the Reporting Period, based on past due dates and net of loss allowances, is as follows:

	As at 31 December 2023 RMB'000 (Unaudited)	As at 30 June 2023 RMB'000 (Audited)
Current (not past due)	1,571	3,916
Less than 1 month past due	223	304
1 to 3 months past due	63	858
More than 3 months but less than 6 months past due	335	827
More than 6 months past due	1,109	402
	3,301	6,307

Trade receivables that were neither past due nor impaired related to a number of customers for whom there was no recent history of default. Trade receivables that were past due related to a number of independent customers that have a good track record with the Group. The Group does not hold any collateral over trade receivables as a guarantee or hold other credit enhancements.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2023

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

	As at 31 December 2023 RMB'000 (Unaudited)	As at 30 June 2023 RMB'000 (Audited)
At the beginning of the year	6,867	6,975
Loss allowance recognised during the year	(295)	(108)
At the end of the year (period)	6,572	6,867

As at 31 December 2023, the Group applied simplified approach to measure lifetime ECLs on the Group's trade receivables for manufacture and sale of furniture products segment of RMB6,886,000 (30 June 2023: RMB9,940,000) using a provision matrix. The following table provides information about the Group's exposure to credit risk and ECLs on trade receivables as at reporting date.

The following table provides information about the Group's exposure to credit risk and ECLs on trade receivables for manufacture and sale of furniture products segment as at the end of the Reporting Period.

As at 31 December 2023

	ECL rate %	Gross carrying amount RMB'000	Lifetime ECLs RMB'000	Net carrying amount RMB'000
Current (not past due)	12.7	1,754	223	1,531
Less than 1 month past due	13.1	257	34	223
1 to 3 months past due	25.5	84	21	63
More than 3 months but less than 6 months past due	45.6	615	281	334
More than 6 months past due	100.0	4,176	4,176	-
		6,886	4,735	2,151

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2023

As at 30 June 2023

	ECL rate %	Gross carrying amount RMB'000	Lifetime ECLs RMB'000	Net carrying amount RMB'000
Current (not past due)	12.7	3,018	382	2,636
Less than 1 month past due	13.1	168	22	146
1 to 3 months past due	25.5	1,151	293	858
More than 3 months but less than 6 months past due	45.6	1,521	694	827
More than 6 months past due	100.0	4,082	4,082	–
		9,940	5,473	4,467

As at 31 December 2023, the Group applied simplified approach to measure lifetime ECLs on the Group's quality assurance deposit receivables for manufacture and sale of furniture products segment of RMB1,038,000 (30 June 2023: RMB1,208,000) using probability-default model. The ECL rate was 83.9% (30 June 2023: 53.6%), the loss allowance as at the end of the Reporting Period was RMB871,000 (30 June 2023: RMB647,000).

As at 31 December 2023, the Group applied simplified approach to measure lifetime ECLs on the Group's trade receivables for data centre segment of RMB1,949,000 using probability-default model. The ECL rate was 49.59%. The loss allowance as at the end of the Reporting Period was RMB967,000. As at 30 June 2023, the Group applied simplified approach to measure lifetime ECLs on the Group's trade receivables for data centre segment of RMB2,026,000 using probability-default model. The ECL rate was 36.87%. The loss allowance as at the end of the Reporting Period was RMB747,000.

(b) Lease receivables

As at 31 December 2023, the Group applied simplified approach to measure lifetime ECLs on the Group's lease receivables for data centre segment of RMB3,130,000 using probability-default model. The ECL rate was 0.4%. The loss allowance as at the end of the Reporting Period was RMB13,000. As at 30 June 2023, the Group applied simplified approach to measure lifetime ECLs on the Group's lease receivables for data centre segment of RMB4,761,000 using probability-default model. The ECL rate was 0.25%. The loss allowance as at the end of the Reporting Period was RMB12,000.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2023

(c) Other receivables

- (i) As at 31 December 2023, among the other receivables, three (30 June 2023: three) debt instruments of RMB10,000,000 (30 June 2023: RMB10,000,000) were due from financial institutions and independent third parties in the PRC. The balance were unsecured, interest-bearing at 7.1% to 7.3% (30 June 2023: 7.1% to 7.3%) per annum and were past due and have not been redeemed in accordance with the terms of the Subscription Agreement (30 June 2023: redeemed within two to six months). For details of the relevant matters, please refer to the disclosure set out in the subsection headed “Significant Events During the Reporting Period” under the Management Discussion and Analysis section.
- (ii) As at 31 December 2023, the Group applied general approach to measure ECLs on the Group’s deposits and other receivables of RMB14,532,000 (30 June 2023: RMB13,669,000) using probability-default model and made loss allowance of RMB10,343,000(30 June 2023: RMB10,205,000) at the end of the period/year.

(d) Prepayments

- (i) As at 31 December 2023, the prepayments of approximately RMB14,101,000 (30 June 2023: RMB22,362,000) were prepayments provided for the suppliers in respect of the purchase of raw materials.
- (ii) As at 31 December 2023, the Group applied general approach to measure ECLs on the Group’s prepayments of RMB22,866,000 (30 June 2023: RMB29,740,000) using probability-default model and made loss allowance of RMB6,448,000 (30 June 2023: RMB4,956,000) at the end of the period/year.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2023

9. TRADE AND OTHER PAYABLES

	As at 31 December 2023 RMB'000 (Unaudited)	As at 30 June 2023 RMB'000 (Audited)
Trade payables (Note (a))	19,787	21,521
Other payables and accruals (Note (b))	16,552	17,857
Other tax payables	251	236
	36,590	39,614

(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:

	As at 31 December 2023 RMB'000 (Unaudited)	As at 30 June 2023 RMB'000 (Audited)
Within 3 months	6,118	14,822
More than 3 months	13,669	6,699
	19,787	21,521

(b) Other payables and accruals

As at 31 December 2023, included in other payables is an amount of RMB5,665,000 (30 June 2023: RMB5,665,000) due to the registered owner of WNT. The amount was unsecured, interest-free and repayable on demand.

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, the Tibet Autonomous Region and Guizhou province; the Group sells its products to its customers mainly through these two major sales channels, namely participating in tenders and direct sales. The Group operates a sales office, Sichuan Greenland Furniture Co., Limited*(四川青田傢俱實業有限公司) (“**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 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 of approximately RMB25.1 million, representing a decrease of approximately RMB1.8 million or approximately 6.8% as compared to the corresponding period of last year. Despite the relaxation of COVID-19 lockdown and control policies in China by the end of 2022, the consumer confidence and economic recovery are weaker than anticipated, while the real estate and furniture markets remain very sluggish. As a result, their respective recovery is expected to take a longer time. Due to the increasingly intensified market competition coupled with the three-year COVID-19 pandemic which has changed the shopping habits of Chinese people, online shopping has gradually become mainstream. It is difficult for commercial real estate to regain its former prosperity. The impact on the furniture industry has exceeded our previous expectations, with customers becoming more cautious in purchasing or replacing furniture. There was no significant improvement in bidding activities across various regions, with overall demand in the furniture industry remaining very weak. In light of these circumstances, the Group has decided to concentrate resources on consolidating its market in the southwestern region, including Sichuan province. We actively seek to straighten out the supply chain relationships with customers and suppliers to ensure timely delivery of customer orders in Sichuan province. Following the relaxation of the COVID-19 lockdown and control policies and

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

gradual economic recovery, the Group is also actively exploring markets in other southwestern regions, focusing its efforts on recovering the markets in Tibet Autonomous Region, Guizhou Province and Chongqing City. Certain progress has been made, and revenue has increased significantly as compared to the corresponding period of last year. Yunnan Province has not yet achieved positive results in market recovery. Meanwhile, the Group exercises strict control over various costs, expenses and spending, strengthens inventory management to effectively reduce losses from slow movement of inventory, actively pursues the collection of significant overdue accounts receivable, strengthen the control of day-to-day operating expenses, and strives to mitigate the impact of various unfavourable factors, thereby yielding certain results.

Other matters during the Reporting Period

As mentioned in the report of the last financial year, the Group assisted Mr. Luo Jinyao (東莞市耀邦集團有限公司 (Dongguan Yaobang Group Co., Ltd.)*) (“**Yaobang Group**”) is controlled by Mr. Luo Jinyao, as a borrower (the “**Borrower**”) or his subsidiaries in obtaining the financing in connection with the pledge of properties such as land and buildings by our subsidiary Sichuan Greenland. However, due to the borrower’s failure to make repayment on time, Sichuan Greenland has received a written notice from the state-owned financial institution(s) in the PRC (the “**Bank(s)**”) demanding Sichuan Greenland to observe and fulfil its obligations under the pledge of a parcel of land and buildings located at Chengdu City provided by the Company. For subsequent matters, please refer to the content set out in the subsection headed “Events After the Reporting Period” under the Management Discussion and Analysis section of this announcement.

In addition, as disclosed in the 2022/23 annual report of the Company, the Company purchased three wealth management products issued by Zhongzhi Enterprise Group Co., Ltd.* (中植企業集團有限公司) or its subsidiaries (“**Zhongzhi Enterprise Group (ZEG)**”) with an aggregate principal amount of RMB10 million which remain outstanding as at the date of this announcement. The Group has provided an investment loss of approximately RMB9.5 million based on the estimated fair value assessment in the last financial year. For specific matters, please refer to the content set out in the subsection headed “Significant Events During the Reporting Period” under the Management Discussion and Analysis section of this announcement.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

Data centre business

During the Reporting Period, the Group achieved a revenue from the existing business of the data centre segment of approximately RMB11.0 million, representing a decrease of approximately RMB1.2 million or approximately 9.4% 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 and the customer attrition rate is comparatively low. However, due to the increasingly intensified market competition and the pessimistic sentiment caused by the prolonged three-year COVID-19 pandemic, some customer did not renew their leases upon expiry or were undergoing business downsizing. New customers were not filled in a timely manner, resulting in insufficient utilisation of vacant rack spaces. Meanwhile, revenue also declined year-on-year due to intensified competition and lower unit prices for new leases as the Company sought to attract new customers. For the Reporting Period, the revenue from the business of leasing server racks, the information technology management service and internet access connection service declined year-on-year. In this regard, the Group provides premium after-sales services, swiftly and efficiently addressing customer concerns and difficulties to increase customer loyalty. We make every effort to retain existing customers, and strive to uncover their potential and assist them in expansion and growth. Meanwhile, we actively explore new customer channels, which have yielded certain results. On the other hand, we sought to negotiate a lower rental price with the suppliers to allow the Group to provide competitive prices flexibly and maintain competitiveness of the Company.

Buildout management service business

In June 2021, a subsidiary of the Company, WNT, entered into a buildout management agreement with Gu'an Fu'ai, to provide engineering and management services 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. As the Phase I buildout management projects were completed in the last financial year, the Group did not commence any new buildout management projects during the Reporting Period, and therefore no revenue in relation to the buildout management service was recognised (the corresponding period of last year: revenue of approximately RMB31.7 million).

MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the Group recorded a revenue of approximately RMB36.1 million, representing a decrease of approximately RMB34.7 million or approximately 49.1% as compared to the corresponding period of last year. During the Reporting Period, the Group recorded a loss of approximately RMB11.4 million, as compared with the loss of approximately RMB12.2 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 “Financial Review” under the Management Discussion and Analysis section of this announcement.

Prospects

Looking ahead, despite the ongoing adjustments in the real estate market, the recovery of the furniture market is expected to take a long time. However, with the gradual elimination of domestic and external uncertainties as well as the gradual recovery of consumer confidence, we will cautiously maintain an optimistic view of the market prospect in the future as China’s economy is still expected to improve and is poised for a strong recovery. Firstly, we will focus our resources, actively seize opportunities, and strive to expand marketing channels, aiming to further recover and consolidate the southwestern market. We will seek to strike a balance between the market share and reasonable profit margins in the southwestern region and expand into markets beyond the southwestern region in a timely manner when conditions are favourable. We will actively broaden the Company’s customer base by striving to acquire more customers in the hospitality and higher institution sectors, while organising product briefings in our showrooms to attract retail customers. In addition, we will consider investing in billboard or vehicle advertising in a timely manner to expand the Company’s brand influence in key market development areas, and will actively explore the online sales. We will continue to increase research and development, while creating differentiated values for customers so as to attract new customers and retain existing ones. In addition, the Group will also strengthen the management and control of the supply chain. By constantly enhancing service capabilities and operational efficiency with various costs reduced, we strive to improve the current operating performance of the furniture segment. Therefore, we believe that in line with a gradual recovery in the demand for furniture, the Company’s business performance will continue to recover steadily.

MANAGEMENT DISCUSSION AND ANALYSIS

In terms of data centre business and buildout management services business, the Group, on one hand, will aggressively pursue our customer expansion by redoubling its publicity, promotion and marketing efforts, and strive to elevate the scale of its existing operations to the next level as quickly as possible. On the other hand, we strive to gain a competitive advantage in the supply price of machine enclosure leasing by strengthening cooperation with existing data centre operators, while seeking to establish a diversified supplier mechanism so as to prevent operational disruptions and maintain a stable profit forecast. Meanwhile, the Company will facilitate necessary conditions to provide diversified services that meet the different needs of customers. We will diversify the revenue streams by expanding the scope of our services to provide more types of Internet services.

Lastly, the Group will actively capitalise on strategic opportunities arising from the government's quest for the data centre development. While enhancing technological research and development, the Company will proactively pursue opportunities to boost its revenue by leveraging our experiences in the buildout management services. We will strive to establish our own data centre with proprietary rights at the earliest opportunity, reducing reliance on external suppliers and gradually enhancing the Company's competitive strengths.

We have been actively identifying opportunities of expanding the business scope of our Group in order to constantly enhance the profitability of our data centre services. By commencing the buildout management services, the Group's relevant experience and expertise, will form part of WNT's track record, which would lead to more business opportunities. By taking advantage of these opportunities, WNT will be able to establish business networks with professional investors, contractors, and suppliers to further develop its data centre business.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

During the Reporting Period, the Group achieved a revenue of approximately RMB36.1 million, representing a decrease of approximately RMB34.7 million or approximately 49.1% 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 RMB25.1 million, representing a decrease of approximately RMB1.8 million or approximately 6.8% as compared to the corresponding period of last year, which was mainly attributable to the facts that:

- (i) During the Reporting Period, revenue from the five southwestern provinces and regions such as Sichuan and Chongqing (including Chongqing Branch Office) decreased by approximately RMB2.2 million or approximately 8.2% as compared to the corresponding period of last year. As the market of the real estate and furniture industry remains very sluggish, it is expected that it will take longer time to recover. Due to the increasingly intensified market competition coupled with the three-year COVID-19 pandemic, which has changed the shopping habits of Chinese people, online shopping has gradually become mainstream. It is difficult for commercial real estate to regain its former prosperity, resulting in very weak overall demand in the furniture industry. Customers have become more cautious in purchasing or replacing furniture. There was no significant improvement in bidding activities across various regions, and the impact on the furniture industry has exceeded our previous expectations.

Among which, revenue from Sichuan Province decreased by approximately RMB5.4 million or approximately 22.4% as compared to the corresponding period of last year, which was the main reason for the year-on-year decrease in revenue in the southwestern region. Revenue from the Tibet Autonomous Region increased by approximately RMB2.1 million or 253.0% as compared to the corresponding period of last year, which was attributable to the realisation of revenue of approximately RMB2.8 million from a financial customer in the region during the Reporting Period; revenue from Guizhou Province increased by approximately RMB0.8 million or approximately 414.9% as compared to the corresponding period of last year; revenue from

MANAGEMENT DISCUSSION AND ANALYSIS

Chongqing City increased by approximately RMB0.3 million or approximately 26.4% as compared to the corresponding period of last year; and no sales were realised in Yunnan Province during the Reporting Period and the corresponding period of last year. As a result of the Group's efforts in expanding its business in the five southwestern provinces and regions and the positive results achieved in the Tibet Autonomous Region, Guizhou Province and Chongqing City, sales in the above-mentioned regions achieved restorative growth.

- (ii) The sales data of revenue of other provinces and regions apart from the five southwestern provinces and regions were relatively small in both years. Among which, revenues from Guangdong Province and Shanghai improved to a certain extent over last year, which has compensated to a certain extent for the decline in earnings from the manufacture and sale of furniture products segment.

Data centre segment: during the Reporting Period, the existing business of the data centre segment achieved a revenue of approximately RMB11.0 million, representing a decrease of approximately RMB1.2 million or approximately 9.4% as compared to the corresponding period of last year. For the Reporting Period, the revenue from the business of leasing server racks, the information technology management service and internet access connection service declined year-on-year, which was mainly attributable to the fact that some customer did not renew their leases upon expiry due to the impact of a weaker-than-expected economic recovery; new customers were not filled in a timely manner, resulting in insufficient utilisation of vacant rack spaces. Meanwhile, revenue also declined year-on-year due to intensified competition and lower unit prices for new leases as the Company sought to attract new customers.

Buildout management service segment: as the buildout management projects in the previous stage were completed in the last financial year, the Group did not commence any new buildout management projects during the Reporting Period, and therefore no revenue in relation to the buildout management service was recognised (the corresponding period of last year: revenue of approximately RMB31.7 million). The decrease in revenue from the buildout management service segment was the main reason for the decrease in revenue of the Group.

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; (iv) production or operation overheads such as depreciation, amortisation of intangible assets, utilities bills, maintenance fee and rent; and (v) cost of buildout management service. The Group's cost of sales for the Reporting Period was approximately RMB30.4 million, representing a decrease of approximately RMB35.0 million or approximately 53.5% as compared to the corresponding period of last year. Of which:

Manufacture and sale of furniture products segment: cost of sales for the Reporting Period was approximately RMB20.4 million, representing a decrease of approximately RMB5.4 million or approximately 20.8% 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 greater than the decline in revenue, resulting in a year-on-year increase in gross profit margin. Based on the composition analysis of cost of sales, of which: (i) a year-on-year decrease of approximately RMB4.1 million (during the Reporting Period, the provision for loss of inventories decreased by approximately RMB2.5 million as compared to the corresponding period of last year, further decreased the cost of materials) in the cost of raw materials used and products purchased; (ii) a year-on-year decrease of approximately RMB0.4 million in wages of production staff, mainly due to the reduction of staff and increase of efficiency; and (iii) other production expenses decreased by approximately RMB0.9 million as compared to the corresponding period of last year, which was attributable to the fact that the plant and land of Sichuan Greenland had made full provision of impairment in the last financial year. Therefore, no relevant depreciation was required for the year, resulting in a year-on-year decrease in depreciation of approximately RMB0.9 million.

Data centre segment: cost of sales of the existing business for the Reporting Period was approximately RMB10.0 million, representing a decrease of approximately RMB0.8 million or approximately 7.7% as compared to the corresponding period of last year. The decrease in cost of sales is mainly attributable to the fact that: some server racks whose leases have expired are provided with lease rate concessions after negotiation with the suppliers. Meanwhile, The Company's strict implementation of "cost reduction and efficiency improvement" has resulted in some of its costs falling in line with the decline in revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

Buildout management service segment: during the Reporting Period, the Group did not carry out projects in relation to buildout management service and therefore did not incur any cost for provision of buildout management services, while the cost for provision of buildout management services of approximately RMB28.8 million was recognised in the corresponding period of last year. The decrease in cost of this segment was the main reason for the decrease in the Group's cost.

Gross profit

The gross profit recognised by the Group increased from approximately RMB5.3 million in the corresponding period of last year to approximately RMB5.6 million in the Reporting Period. Of which:

Manufacture and sale of furniture products segment: during the Reporting Period, the gross profit amounted to approximately RMB4.6 million, representing a year-on-year increase of gross profit of approximately RMB3.5 million or approximately 321.5%. The gross profit margin of furniture increased from approximately 4.1% in the corresponding period of last year to approximately 18.5% during the Reporting Period, mainly attributable to the decrease in cost of sales. The provision for inventory loss for the Reporting Period decreased by approximately RMB2.5 million as compared to the corresponding period of last year. In addition, as the plant and land of Sichuan Greenland had made full provision of impairment in the last financial year, no relevant depreciation was required for the year, resulting in a year-on-year decrease of approximately RMB0.9 million in depreciation, which also greatly contributed to increase the gross profit margin.

Data centre segment: gross profit of the existing business for the Reporting Period was approximately RMB1.0 million. Gross profit decreased by approximately RMB0.3 million as compared to the corresponding period of last year. The gross profit margin decreased from approximately 10.5% for the corresponding period of last year to approximately 8.8% for the Reporting Period, which were mainly attributable to the facts that some customer did not renew their leases upon expiry and new customers were not filled in a timely manner, resulting in insufficient utilisation of production capacity. Meanwhile, gross margin decreased year-on-year as compared to the corresponding period of last year due to intensified competition and the fact that decrease in the unit price of new leases is greater than the lease rate concessions provided by suppliers as the Company sought to attract new customers.

MANAGEMENT DISCUSSION AND ANALYSIS

Buildout management service segment: during the Reporting Period, the Group did not generate any revenue and costs from buildout management service, and therefore did not generate any gross profit from buildout management service, while the gross profit generated from buildout management service for the corresponding period of last year was approximately RMB2.9 million. The decrease in gross profit of this segment was the main reason for the decrease in gross profit of the Group.

Other income, net

During the Reporting Period, the Group recognised other income, net of RMB1.6 million, representing a decrease of approximately 47.3% as compared to the corresponding period of last year. Such decrease was mainly attributable the fact that interest income from other receivables decreased year-on-year due to the no subscription of wealth management products during the Reporting Period, while income from government grants and dividend income from financial assets at fair value through profit or loss also decreased as compared to the corresponding period of last year.

Selling and distribution expenses

During the Reporting Period, the Group recognised selling and distribution expenses of approximately RMB3.5 million, representing a decrease of approximately RMB0.1 million or approximately 3.8% 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 year-on-year decrease of selling and distribution expenses of the manufacture and sale of furniture products segment was mainly due to the decrease in amortised renovation expenses of showroom during the Reporting Period as compared to the corresponding period of last year.

Administrative and other expenses

During the Reporting Period, the Group recognised the administrative and other expenses of approximately RMB9.6 million, representing a decrease of approximately RMB2.0 million or approximately 17.1% as compared to the corresponding period of last year, of which: administrative and other expenses of the data centre segment and buildout management service segment amounted to approximately RMB1.4 million, representing a decrease of approximately RMB1.7 million or 54.3% as compared to the corresponding period of last year. Such decrease was mainly attributable to the year-on-year decrease of approximately RMB0.8 million in legal and professional fees incurred during the Reporting Period. Meanwhile, the provision for expected trade credit losses for the Reporting Period decreased by approximately RMB0.4 million year-on-year, and the remainder representing the year-on-year decrease in wage expenses and ordinary expenses incurred during the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

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 RMB8.2 million, representing a decrease of approximately RMB0.3 million or 3.4% as compared to the corresponding period of last year. Such decrease was mainly attributable to the fact that: (i) the recognition of share-based equity settled payment expenses of the Company during the Reporting Period was decreased by approximately RMB1.9 million as compared to the corresponding period of last year; (ii) the increase of approximately RMB0.4 million in the provision for ECLs of trade and other receivables and prepayments during the Reporting Period as compared to the corresponding period of last year; and (iii) the administrative expenses such as rentals, taxes, welfare fees, office expenses increased year-on-year during the Reporting Period. The increase in expenses of (ii) and (iii) above offset the decrease in expense of (i).

Finance Costs

The Group incurred finance costs of approximately RMB5.5 million during the Reporting Period, while the finance costs of the Group in corresponding period of last year was approximately RMB5.0 million, representing a year-on-year increase of approximately 10.1%. 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 RMB0.6 million as compared to the corresponding period of last year, which was mainly attributable to the completion of the placing of convertible bonds with the aggregate principal amount of US\$8 million on 6 August 2021, and the year-on-year increase in the imputed interest expense incurred; (ii) the interest expense on lease liabilities incurred under the HKFRS 16 decreased by approximately RMB0.1 million as compared to the corresponding period of last year.

Income Tax Expense

The Group did not incur any income tax expense during the Reporting Period, while the income tax expense for the corresponding period of last year was approximately RMB360,000. During the Reporting Period, the Group and its subsidiaries were loss making in the corresponding period. Although there were profit-making, they were not subject to income tax due to the losses in previous years.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

During the Reporting Period, the Group financed its operations by internally generated cash flow and net proceeds from the placing of convertible bonds under the general mandate. As at 31 December 2023, the Group had net current assets of approximately RMB10.7 million (30 June 2023: approximately RMB18.3 million) including bank balances and cash of approximately RMB34.8 million (30 June 2023: approximately RMB33.8 million). As at 31 December 2023, the Group did not have outstanding interest-bearing bank loan (30 June 2023: nil). As at 31 December 2023, the Group's current ratio (defined as the ratio of current assets to current liabilities) was approximately 1.1 (30 June 2023: approximately 1.1).

CAPITAL STRUCTURE

As at 31 December 2023, the Company's issued capital was approximately HK\$9,073,333 and the number of its issued ordinary shares was 907,333,333 of HK\$0.01 each.

As at 31 December 2023, the Group's total equity attributable to the owners of the Company amounted to approximately RMB37.8 million (30 June 2023: approximately RMB47.3 million). The Group's equity attributable to the owners of the Company includes share capital and capital reserve.

GEARING RATIO

As at 31 December 2023, the 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 2.53 (30 June 2023: approximately 2.03).

CONTINGENT LIABILITIES

As at 31 December 2023, the Group was not aware of any material contingent liabilities or guarantees.

SIGNIFICANT INVESTMENTS HELD

As of 31 December 2023, the Group subscribed to certain wealth management products from Zhongzhi Enterprise Group in the last financial year (details of which are set out in the Company's announcements dated 11 August 2023 and 25 August 2023). Three of these wealth management products have not been redeemed with the aggregate principal amount of RMB10 million. The above three wealth management products had become overdue without being redeemed pursuant to the terms of the subscription agreement. However, there was no individual investment with a carrying value of 5% or more of the Group's total assets as at 31 December 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

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 31 December 2023. However, the Group will review and monitor from time to time the risk relating to foreign exchange.

SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

As of the date of this announcement, as disclosed in the 2022/23 annual report of the Company, three wealth management products with the aggregate principal amount of RMB10 million remain outstanding and are past due.

Due to a higher risk of redemption, in accordance with prudence principles and in order to fairly reflect the Group's financial position, the Group has made a provision for investment losses of approximately RMB9.5 million based on the fair value assessment during the last financial year.

According to the notification of Chaoyang Branch of Beijing Municipal Public Security Bureau (北京市公安局朝陽分局) on 25 November 2023, it has recently launched an investigation into the wealth companies affiliated to "ZEG" for suspected illegal crimes in accordance with the law. In order to comprehensively investigate the case and full recovery of monies and losses lost to fraud, investors are requested to register the case through one of three methods: online, mail, or on-site reporting. It is reported that Zhongzhi International Investment Holding Group Co., Ltd.* (中植國際投資控股集團有限公司) and Zhongzhi Automobile Anhui Co., Ltd.* (中植國際投資控股集團有限公司) also fall within the scope of investigation. Therefore, the Group has completed the reporting procedures for the above-subscribed wealth management products as required by the Chinese public security authorities.

In addition, Beijing No. 1 Intermediate People's Court ruled on 5 January 2024 that the petition for bankruptcy and liquidation of Zhongzhi Enterprise Group Co., Ltd.* (中植企業集團有限公司) was accepted.

The Group will closely monitor the progress of the aforesaid matters in the future and will comprehensively consider various feasible legal measures in order to minimise investment losses and protect the interests of the Shareholders.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

Saved as aforesaid, the Group has no discloseable matters which are yet to be disclosed.

EVENTS AFTER THE REPORTING PERIOD

1. References are made to the announcements of the Company dated 25 January 2022 and 2 June 2023 (the “**Announcements**”) and the circular of the Company dated 25 March 2022 (the “**Circular**”) in relation to, among other matters, (i) the entering into of the Agreement for the provision of financial assistance by way of pledge of properties of the Group and (ii) the receipt of written notice dated 15 May 2023 from the Bank requesting Sichuan Greenland to observe and perform its obligations under the Pledge if the Borrower fails to make repayment.

The Bank subsequently sought an order from the Dongguan Third Primary People’s Court, Guangdong (廣東省東莞市第三人民法院) (the “**Court**”) for, among others, confirmation of the Bank’s rights (“**Disposal Rights**”) to enforce the pledge and sell the Properties by auction in settlement of the liability owed by the Borrower to the Bank in light of the Borrower’s failure to perform its repayment obligation regarding the Loan. The hearing was held on 22 August 2023 and the civil judgment (“**Judgment**”) of the Court was handed down on 16 January 2024, pursuant to which, among others, the Disposal Rights of the Bank was confirmed. In response to the Judgment, the Board has been currently taking advices and considering to appeal to the Court.

As disclosed in the annual report of the Company for the year ended 30 June 2023, an impairment loss on assets, namely the Properties, of approximately RMB49.8 million has been made by the Group.

In addition, the Group has been identifying other suitable location for relocation of the production base of the Group currently located at the Properties in case the Bank enforces the Disposal Rights. For specific details, please refer to the Voluntary announcement of the Group dated 24 January 2024 in respect of the business update.

MANAGEMENT DISCUSSION AND ANALYSIS

2. At the extraordinary general meeting of the Company held on 7 February 2024 for the purpose of voting in respect of (1) proposed Share Consolidation; (2) proposed Increase in Authorised Share Capital; and (3) subscription of 2024 Convertible Bonds under the Specific Mandate, the Group is authorised:
 - (1) to consolidate every ten (10) issued and unissued shares of par value of HK\$0.01 each in the share capital of the Company into one (1) share of par value of HK\$0.1 each (the “**Consolidated Share(s)**”), and such Consolidated Shares shall rank pari passu in all respects with each other and have the rights and privileges and be subject to the restrictions as contained in the articles of association of the Company.
 - (2) to increase the Authorised Share Capital of the Company from HK\$15,000,000 divided into 150,000,000 Consolidated Shares of par value of HK\$0.1 each to HK\$30,000,000 divided into 300,000,000 Consolidated Shares of par value of HK\$0.1 each by the creation of an additional 150,000,000 Consolidated Shares.
 - (3) to approve, confirm and ratify the two conditional subscription agreements dated 3 January 2024 entered into between the Company as issuer and each of the two subscribers as the subscriber in relation to the issue of Convertible Bonds in the aggregate principal amount of HK\$12,400,000 at the initial conversion price of HK\$0.683 per Conversion Share (subject to adjustments) and the transactions contemplated thereunder (including but not limited to the issue of the Convertible Bonds and the allotment and issue of the Conversion Shares upon exercise of conversion rights attaching to the Convertible Bonds).

MANAGEMENT DISCUSSION AND ANALYSIS

Assuming the Share Consolidation becoming effective, based on the initial Conversion Price of HK\$0.683 per Conversion Share, a total of 18,155,197 Conversion Shares will be allotted and issued upon exercise of the conversion rights attaching to the 2024 Convertible Bonds in full, representing (i) approximately 20.01% of the total number of Shares in issue as at the date of this announcement, and (ii) approximately 16.67% of the total number of Shares in issue as enlarged by the allotment and issue of the Conversion Shares upon full conversion of the 2024 Convertible Bonds (assuming that there will be no change in the issued share capital of the Company from the date of this announcement and up to conversion of the 2024 Convertible Bonds in full at the initial Conversion Price). The Conversion Shares will be allotted and issued under the Specific Mandate to be approved by the Shareholders at the extraordinary general meeting. The subscription price of the 2024 Convertible Bonds in the aggregate amount of HK\$12,400,000 payable by the Subscribers under the Subscription Agreements shall be satisfied by way of offsetting in full on a dollar-to-dollar basis against the outstanding aggregate principal amount of the 2020 Convertible Bonds of HK\$12,400,000 payable by the Company to the Subscribers at maturity of the 2020 Convertible Bonds.

Shareholders and potential investors of the Company should note that all the conditions to the Share Consolidation and the Increase in Authorised Share Capital have been fulfilled and these matters will become effective on Wednesday, 14 February 2024. As a result of the Share Consolidation, adjustments are made in relation to the Share Options. Such adjustments will become effective on Wednesday, 14 February 2024. The Subscription and the transactions contemplated thereunder are subject to the satisfaction of certain conditions precedent and therefore may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

For specific details of the above matters, please refer to the announcements issued by the Group on 3 January, 22 January and 9 February 2024, and the poll results of the extraordinary general meeting held on 7 February 2024.

MANAGEMENT DISCUSSION AND ANALYSIS

3. The Board is pleased to announce that on 1 February 2024, Shangcheng Smart Home (Dongguan) Co., Ltd.* (尚誠智能家居(東莞)有限公司), a company established in the PRC with limited liability and is an indirect non-wholly owned subsidiary of the Company (as the lessee), entered into the Factory Lease Agreement with Guangdong Newbakers Industrial Co., Ltd.* (廣東新比克斯實業股份有限公司) (as the lessor), being an Independent Third Party, in respect of leasing Property for a lease term of ten years commencing from 1 February 2024 to 31 January 2034 (both days inclusive). Pursuant to HKFRS 16, the Company will recognise the value of the right-of-use assets on its consolidated statement of financial position in connection with the lease of the Property under the Factory Lease Agreement. Therefore, the entering into the Factory Lease Agreement and the transaction contemplated thereunder will be regarded as acquisition of assets by the Group under the GEM Listing Rules. The unaudited value of right-of-use assets to be recognised by the Company under the Factory Lease Agreement amounted to approximately RMB11.6 million. For details, please refer to the announcement of the Group dated 1 February 2024.

As of the date of this announcement, saved as aforesaid, the Group has no discloseable matters which are yet to be disclosed.

INFORMATION ON EMPLOYEES

As at 31 December 2023, the Group engaged a total of 137 employees (31 December 2022: 195) including the Directors. For the six months ended 31 December 2023, total staff costs amounted to approximately RMB6.01 million (corresponding period in 2022: approximately RMB7.35 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.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

On 25 January 2022, the Company entered into an agreement with Yaobang Group to provide a parcel of land and buildings located in Chengdu City as pledge (the “**Pledge**”) by the Company for a term of 36 months to assist Yaobang Group to obtain a facility of up to RMB60,000,000 from the Bank(s) for the acquisition, investment and/or development of data centre business in the PRC. An extraordinary general meeting of the Company was held on 12 April 2022, at which the said agreement and the transactions contemplated thereunder were approved, confirmed and ratified. For details of the agreement, please refer to the announcement of the Company dated 25 January 2022 and the circular of the Company dated 25 March 2022.

On 25 May 2022, a financing arrangement between Yaobang Group and the Bank(s) was finalised, which authorised 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 (the “**Loan**”).

Due to the failure of the Borrower and its subsidiaries to repay the Loan when due, Sichuan Greenland, has received a written notice from the Bank(s) demanding Sichuan Greenland to observe and perform its obligations under the Pledge. For details, please refer to the voluntary announcement of the Company dated 2 June 2023 in respect of the business update. For subsequent matters, please refer to the content set out in the subsection headed “Events After the Reporting Period” under the Management Discussion and Analysis section of this announcement.

The Group has initiated legal proceedings in court regarding the aforementioned matter and has sought prelitigation preservation of assets belonging to the Borrower and its subsidiaries, which were accepted by the court on 28 August 2023.

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

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed herein, as at the date of this announcement, the Group does not have any specific plans for material investments or capital assets. However, the Group will continue to seek investment opportunities to meet the Group’s strategic development both domestically and internationally so as to enhance the Group’s sustainable and stable development.

OTHER INFORMATION

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

As at the date of this announcement, the Group did not have any material disposals and acquisitions of subsidiaries and affiliated companies.

- (a) As at the end of the Reporting Period, the balances between the Group and the related companies are as follows:

	As at 31 December 2023 RMB'000	As at 30 June 2023 RMB'000
Amounts due from related companies:		
Long-term loans receivable — SPV	50,000	50,000
Interest receivable — SPV	3,000	1,503
	53,000	51,503

Mr. Lai, an executive director, has control over the related company.

- (b) During the Reporting Period and the corresponding period of last year, the Group entered into the following transactions with related parties:

	July – December 2023 RMB'000	July – December 2022 RMB'000
Interest income from SPV	1,497	1,537
Interest income from Gu'an Fu'ai	–	–
Buildout management service income from Gu'an Fu'ai	–	31,738

Mr. Lai, an executive director, has control over the related company.

Save for the matters disclosed above, the Group did not enter into any connected transactions or continuing connected transactions that are not exempt under Rule 20.71 of the GEM Listing Rules during the Reporting Period.

OTHER INFORMATION

AUDIT COMMITTEE

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

The Audit Committee comprises three independent non-executive Directors, namely Mr. Chan Wing Kit, Ms. Cao Shao Mu and Mr. 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 six months ended 31 December 2023. The Audit Committee is of the view that the unaudited consolidated results are in compliance with the applicable accounting standards, the GEM Listing Rules and other legal requirements, and that the sufficient disclosure was made.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct (“**Code of Conduct**”) regarding securities transactions by the Directors. The Company has confirmed, having made specific enquiry of the Directors, that all the Directors have complied with the Code of Conduct throughout the six months ended 31 December 2023 and up to the date of this announcement.

CHANGE IN INFORMATION OF DIRECTORS

For the six months ended 31 December 2023, there was no change in the information of Directors required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules.

OTHER INFORMATION

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 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 the date of this announcement, 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 February 2024

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.