

ZHICHENG

TECHNOLOGY GROUP LTD.

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE : 8511

ENVIRONMENTAL, SOCIAL AND
GOVERNANCE (ESG) REPORT

2018

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1 CORPORATE PROFILE

Zhicheng Technology Group Ltd. (the “**Company**”, together with its subsidiaries hereinafter called the “**Group**” or “**Zhicheng**”) is a smart manufacturing solution provider listed on GEM of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 20 April 2018 (stock code: 8511). The Group focuses on providing precision testing solutions and precision machining solutions in China, and provides a one-stop service ranging from solution concept and design, procurement of machinery, auxiliary tools and software and system installation and debugging to provision of aftersales services such as technical support and training.

Currently, the Company has 8 registered patents, including 3 invention patents and 5 utility patents, and 5 pending invention patent registrations. The research and development team has collaborated with professors and researchers from established tertiary institutions from time to time. The Group has collaborated with South China University of Technology and Taiyuan Institute of Technology, as well as with a professor from a technological university in Singapore. The Group has successfully invented 3 technology applications in collaboration with South China University of Technology.

2 ABOUT THIS REPORT

2.1 REPORTING STANDARD, PERIOD & SCOPE

This report is prepared in accordance with Environmental, Social, and Governance Reporting Guide (“**ESG Guide**”) set out in Appendix 20 of the Rules Governing the Listing of Securities on GEM (the “**GEM Listing Rules**”) of the Stock Exchange. The Group adheres to the principles of materiality, quantitative, balance and consistency in reporting key material issues. Information regarding Corporate Governance is addressed in the 2017/18 Annual Report according to Appendix 15 of the GEM Listing Rules.

This is the Group’s first publication of the Environmental, Social, and Governance (“**ESG**”) Report (the “**Report**”), which covers all ESG-related activities from 1 April 2017 to 31 March 2018 (the “**Reporting Period**”).

The Report covers business scope of the Company’s headquarter and its local subsidiary in Guangzhou, Guangdong province, the People’s Republic of China (the “**PRC**”). The Group’s business in Beijing, Xi’an, Chongqing, Changsha, Changchun, Nanjing and Hong Kong are not included since the environmental and social impacts are not significant.

2.2 CONTACT DETAILS

The Group welcomes any feedbacks and suggestions regarding to this Report and the Group’s sustainability strategies. Please feel free to contact us at:

Email: ztecgroup.com

Tel: 86-020-32219108

Fax: 86-020-32219493

2.3 MATERIALITY ASSESSMENT

The Report focuses on the most material sustainability issues of the Group. In order to identify the material issues, the Group has appointed a third-party consultancy firm to assist the materiality assessment. The assessment considered the ESG issues relevant to the industry and the Group's daily operation. With reference to the ESG Guide, the following highlights are the material issue of the Group's business:

ESG Guide Reference	Material Issues
A. Environmental	
A1 Emissions	Greenhouse Gas Emission
A2 Use of Resources	Energy Consumption
B. Social	
B1 Employment	Employment and Labour Standards
B4 Labour Standards	
B2 Health and Safety	Workers Health and Safety
B3 Development and Training	Employee Development
B5 Supply Chain Management	Supply Chain Management
B6 Product Responsibility	Quality Control
B7 Anti-Corruption	Anti-Corruption
B8 Community Investment	Community Investment

3 DELIVERING QUALITY SERVICES

Customer satisfaction ensures business survival and development for an organisation. The Group has believed that delivering best quality services as an important aspect for improving customer satisfaction. Therefore, the Group has been dedicated to delivering quality solutions to the end customers through implementing stringent quality control measures and after-sales procedures.

3.1 QUALITY CONTROL

As a smart manufacturing solutions provider, the Group's solutions have comprised and integrated various equipment and services, ranging from solution concept and design, procurement of machinery, auxiliary tools and software and system installation and debugging to provision of after-sales services. Various teams, including the Quality Control ("QC") Team, the Product Research and Development ("R&D") Team, and the Procurement Team have conducted quality assessments throughout the process to ensure the quality met the expected standards.

Product Research and Development

At the stage of research and development, the solutions and project plans were required to be checked and approved by the QC team. A formal report of the check result was issued, and any deficiency in the solutions should be discovered and resolved before the next stage.

Procurement

The Procurement Team and the R&D Team were responsible for selecting and testifying the suppliers and sample products. The selection was based on the reputation, product quality, management ability, supply capacity, price, and after-sales services of the potential suppliers. The Group has also recognized the energy consumption and air emissions during the product transportation. Therefore, the Group gave priority to suppliers close to the end customers' location when possible.

The Procurement Team has selected and maintained a list of qualified suppliers. The list reserved diverse suppliers for the Group to reduce reliance on any single supplier.

Installation

Zhicheng undertook to install the products onto its end customers' worksites and to carry out requisite testing to ensure conformity with the technical terms listed in the technical agreement and end customers' requirements. Therefore, testing of the products was conducted to ensure that all hardware and software of the various modules were fully integrated into customer's working system. The QC Team would analyse any defects during this stage, and would liaise with the suppliers for possible solutions if the defects were due to machinery quality.

After-sales Services

After installation, the QC Team would appoint staff to visit the end customers every six months to supervise the quality of the system.

Zhicheng provided a range of after-sales services including, but not limited to, provision of technical advice, system training and maintenance. The Technical Support Team was responsible for taking any enquiries from clients and technical employees were sent to the customers' sites to address any issues if necessary.

Through the joint efforts of various departments, the Group has achieved **zero customer complaint** and **zero product recall** during the Reporting Period.

3.2 INTELLECTUAL PROPERTY RIGHT & CUSTOMER DATA PROTECTION

The Group has recognised the importance of intellectual property, and has complied with relevant policies and regulations relating to information confidentiality and intellectual property right. Zhicheng was committed to protecting any confidential information, and shall not use any ideas, products, and goods from partners without proper authorization.

4 MAINTAINING AN EFFECTIVE TEAM OF TALENTS

The Group's development has been inseparable from the efforts of its employees. Zhicheng has treated talents as a valuable capital. It has committed to protecting their legitimate rights and interests and creating a healthy and positive working environment.

4.1 EMPLOYMENT

Zhicheng has believed that a diverse workforce would bring positive values to the company through the enforcement of the innovation and creativity. To build a diverse workplace, the Group was committed to ensuring equal employment opportunities to all talents. The selection of right candidates focused on the individuals' qualification, regardless of their race, age, gender or religion. The Group has established a set of clear and transparent procedures on its recruitment process. The Group recruited suitable talents through tests and interviews, strictly in accordance with the principle of **"open recruitment and merit-based admission"**.

The Group has offered reasonable salary, working hours and employee welfares in accordance with national relevant laws and regulations. Zhicheng has conducted an annual performance assessment to adjust employees' salary based on their performance. On top of that, Zhicheng also provided paid holidays for employees, including statutory holidays, annual leave, sick leave, marriage leave, maternity leave and bereavement leave. Additionally, the Group offered social insurance and housing provident fund for employees in accordance with the national laws.

During the Reporting Period, Zhicheng had strictly complied with relevant laws and regulations, such as the Labour Law of PRC and the Labour Contract Law of PRC. Up to 31 March 2018, the Group had a total of 19 employees from mainland China¹, among which the ratio of male to female was nearly 7:3. The proportion of employees aged 31 to 50 was 53%, and that of 30 years old and below was 42%. In addition, the annual turnover rate of the Group was 13%².

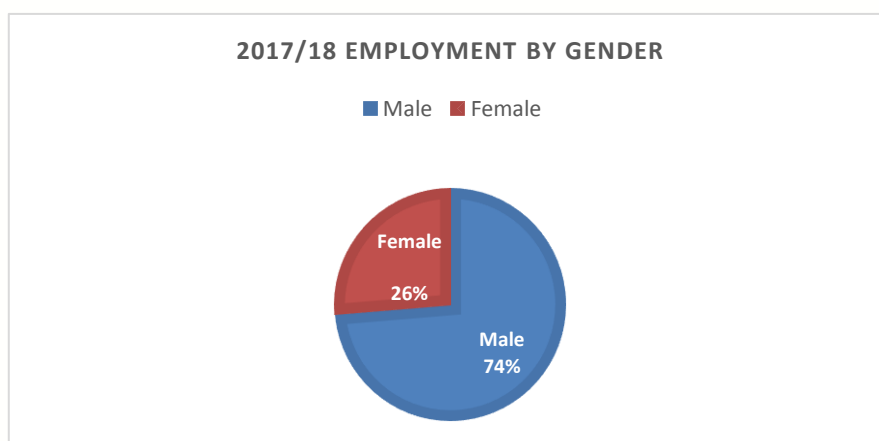
¹ Employment in Hong Kong was out of scope.

² Turnover rate is defined as the rate of employees who voluntarily resign or leave because of retirement, dismissal, or other reasons. The turnover rate is calculated according to the following formula:

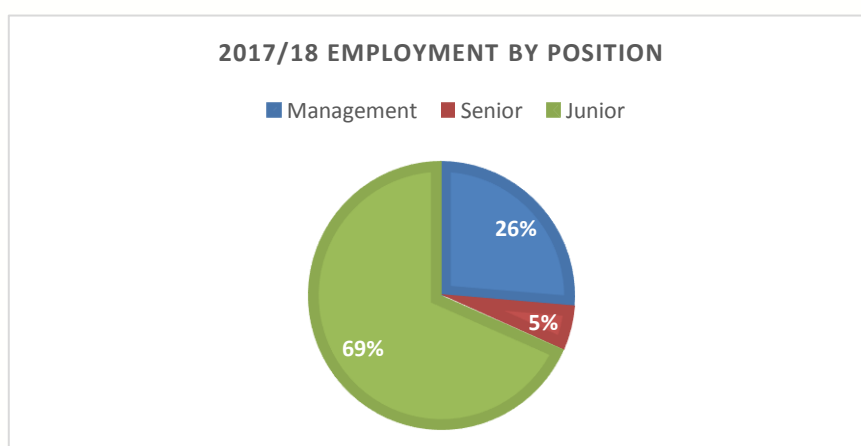
$$\text{Turnover rate} = \frac{NELDY}{(NEBY + NEEY)/2}$$

NELDY = Number of Employees who left during the year
NEBY = Number of Employees at the beginning of the year

2017/18 employment by gender		
Gender	Number of employees	Percentage
Male	14	74%
Female	5	26%
Total	19	100%



2017/2018 employment by position		
Position	Number of employees	Percentage
Management	5	26%
Senior	1	5%
Junior	13	69%
Total	19	100%



4.2 LABOUR STANDARD

The Group has prohibited and sanctioned any violation on employment of child and forced labours. In order to prevent child and forced labour, the Human Resources (“HR”) Department has strictly checked employees’ identification, such as identity cards, during recruitment. In case of any illegal labour practices, the HR Department would take immediate action as appropriate. Regular review of the system was also conducted to ensure zero violation.

In the Reporting Period, **no case relating to child or forced labour was found.**

4.3 HEALTH AND SAFETY

The Group has been striving to create a safe and healthy workplace for employees, and has formulated safety management regulations.

To ensure occupational safety throughout the operation, the Group has set up safety policy. The policy has suggested employees to attend relevant training and acquire qualification before they could operate the equipment. Meanwhile, they should follow the equipment safety operation procedures and requirements. The Group purchases extra commercial insurance for employees based on specific conditions and organized annual physical examination for all employees.

In addition, the Group has endeavored to provide a comfortable working environment for the employees. For example, the Group has offered beds and sofas for temporary rest for employees.

Through consistent trainings and strict adherence to health and safety laws and regulations, the Group had **zero fatality and injury** during the Reporting Period.

Beds and sofas



4.4 ANTI-CORRUPTION

To preserve a clean and honest corporate image, the Group worked hard to achieve the highest standards of openness, probity and accountability. Zhicheng has set up policies to ensure there was no violation regarding corruption. Employees shall follow the policies and reject any forms of bribery or interests from suppliers or any other parties.

The Group has set up a whistleblowing policy to prevent any kind of violation. Employees were encouraged to report on any suspected cases relating to corruption via the anonymous suggestion box. Moreover, the Group did not cover up any corruption violation, and clearly stated that any kind of violations and criminal acts shall pursue criminal liability.

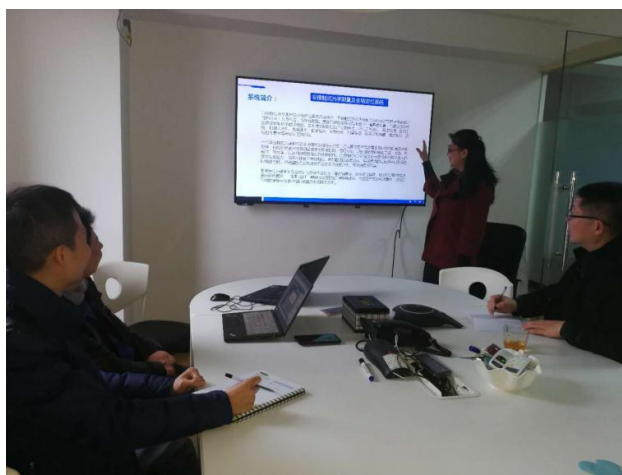
During the Reporting Period, the Group has complied with laws and regulations related to anti-corruption. **No cases related to bribery, corruption and conflicts of interests were noticed.**

4.5 TRAINING AND DEVELOPMENT

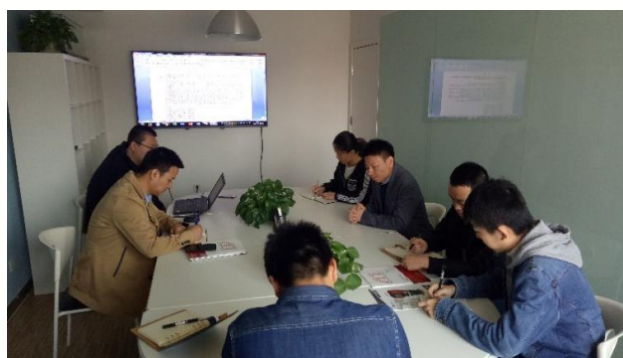
To encourage employees to build their professional capacity, the Group has provided maximum support on their career development. Keeping with this commitment, the Group has established a systematic training management system, and arranged internal and external occupational training for employees in different positions. The Group has also conducted training evaluation according to the Group's training management system.

During the Reporting Period, the Group held comprehensive trainings for all employees. For instance, to communicate the company culture and working attitude to its employees, the Group provided orientation for newly joined employees. Zhicheng also held several trainings, such as *Training of Professional Knowledge and Technical Skill* and *Communication – the Potential for Career Improvement*, to improve employees' communication and technical skills. Management training courses were also provided for employees to further hone their management skills.

Financial management training



Professional knowledge and technical skill training



Throughout the Reporting Period, the Group has organised a total of **395 hours** of various training courses for employees, and the average training hours per employee reached **20 hours**.

5 INVESTING IN THE COMMUNITY

The Group's philosophy on investing in the community started from the core of the company itself and extended to the surrounding society. As Zhicheng recognised the importance of preserving an energetic company culture, the Group was eager to organise company activities to reward the hard-working employees. Through these activities, employees positively enhanced their sense of belonging in the company and further developed their relationship with one another.

As the Group saw the potentials in cultivating the youth, it partnered with Taiyuan Institute of Technology from January to February in 2018 to provide internship opportunities for students. The internship program developed them with technical experience before entering the workforce.

As a way to fulfill its corporate citizenship, the Group has constantly pursued ways to give back to the community it served. With a focus on helping and supporting those in need, the Group encouraged employees to participate in different volunteering services. In addition, the Group gave candidates with disabilities equal employment opportunities and ensured their benefits to reinforce their social status.

Given the importance of investing in the community, the Group will continue to dedicate more inputs into not only its company but also the society.

Employees participated in the 2017 Annual Trip in Sichuan



Internal awards for outstanding employees



Employees visited the Jianchuan Museum



6 MINIMISING ENVIRONMENTAL IMPACT

In efforts to becoming a more sustainable company, the Group has steered a commitment to devise a smarter future by launching an environmental friendly and sustainable business approach. For the preservation of the company's sustainability culture, the Group has followed all compliance with relevant regulations to prevent any potential environmental impacts during operation while transforming itself into a greener operation.

6.1 GREEN OFFICE

The Group's energy use and its indirect greenhouse gas ("GHG") emission mainly came from the electricity consumptions in its office operation. In recognition of this, the Group has initiated a set of Green Office policies for employees to minimise the Group's carbon footprint from its operation. These policies focused on facilitating energy efficiency and advancing waste reduction.

The Group's Green Office policies are summarised as follows:

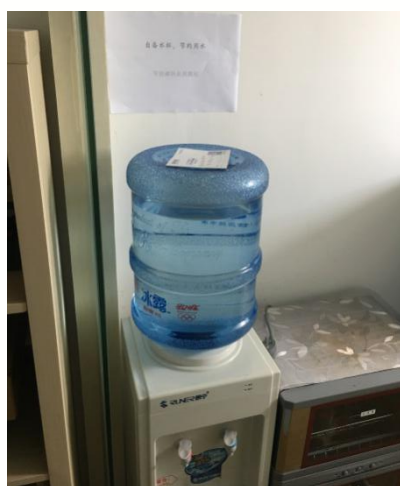
- Switching off lights and other electronic devices while not in use
- Setting an optimum temperature for the Air-Conditioner ("AC")
- Shutting all doors and windows when the AC is turned on
- Bringing tableware to replace with disposable ones
- Allowing natural lights to illuminate the workplace
- Printing on both sides to save paper

Through the implementation of the above policies, the Group effectively upraised its employees' awareness and responsibility with reference to environmental protection. Seeing that was the first year integrating sustainable practices into actions, the Group expects to see the improving results in reducing electricity consumption as well as greenhouse gas emission in the coming reporting period.

Reminder for switching lights off when leaving the room



Reminder for saving water



Reminder for setting the AC at 25 degree Celsius



6.2 ENVIRONMENTAL PERFORMANCE TABLE

Overview of Environmental Performance in 2017/18	
Electricity Consumption (kWh)	8,112.44
Total Electricity Intensity ³ [kWh/ Gross Floor Area (m ²)]	47.01
Total GHG Emission [Tonnes of CO ₂ equivalent (tCO ₂ e)]	4.76
GHG Emission Intensity [tCO ₂ e / Gross Floor Area (m ²)]	0.028

7 LOOKING FORWARD

As the demand for smart manufacturing solutions increases, the Group has realised the importance of providing the highest quality of service while spreading its arms to engage in different industries. To do so, the Group aims to take further measures to reinforce the flourishing of its employees and retain a dedicated talent group. Having a vision to expand its business, the Group will continue its effort to integrate sustainability values into operation.

³ The scope during the Reporting Period covered a Gross Floor Area of 172.58m².

8 ESG CONTENT INDEX

Aspect / Description / KPI		Statement/Section	Page No.	“Comply or Explain”
A. Environment				
A1 Emission				
A1	General Disclosure	6. Minimising Environmental Impacts	14	✓
A1.1	Types of emissions and respective emissions data	6.2 Environmental Performance Table	16	✓
A1.2	Greenhouse gas emissions in total and, where appropriate, intensity	6.2 Environmental Performance Table	16	✓
A1.3	Total hazardous waste produced and, where appropriate, intensity	The Group does not produce any hazardous waste. Therefore, it is not material to the Group’s operation.	N/A	✓
A1.4	Total non-hazardous waste produced and, where appropriate, intensity	The Group currently does not report on the amount of non-hazardous waste produced. The Group plans to disclose the relevant information in the future.	N/A	✓
A1.5	Description of measures to mitigate emissions and results achieved	6.1 Green Office	14 – 15	✓
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	The majority of the Group’s wastes are general office refuse, which are not material to the business’ operation. The initiatives from the Green Office policies have facilitated office waste reduction.	N/A	✓
A2 Use of Resource				
A2	General Disclosure	6. Minimising Environmental Impacts	14	✓
A2.1	Direct and/or indirect energy consumption by type in total and intensity	6.2 Environmental Performance Table	16	✓
A2.2	Water consumption in total and intensity	The Group’s water is supplied and managed by the building management. Therefore, water consumption is not applicable.	N/A	✓
A2.3	Description of energy use efficiency initiatives and results achieved	6.1 Green Office	14 – 15	✓

Aspect / Description / KPI		Statement/Section	Page No.	"Comply or Explain"
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Water usage is relatively insignificant to the Group's operation. However, the Group plans to integrate measures to reduce water consumption.	N/A	✓
A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced	The Group has no packaging material. Therefore, it is not material to the Group's operation.	N/A	✓
A3 The Environment and Natural Resources				
A3	General Disclosure	6. Minimising Environmental Impacts	14	✓
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	6.1 Green Office	14 – 15	✓
B. Social				
B1 Employment				
B1	General Disclosure	4. Maintaining an Effective Team of Talent	7	✓
B1.1	Total workforce by gender, employment type, age group and geographical region	4.1 Employment	7 – 8	
B1.2	Employee turnover rate by gender, age group and geographical region	4.1 Employment	7 – 8	
B2 Health and Safety				
B2	General Disclosure	4.3 Health and Safety	9	✓
B2.1	Number and rate of work-related fatalities	4.3 Health and Safety	9	
B2.2	Lost days due to work injury	4.3 Health and Safety	9	
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	4.3 Health and Safety	9	

Aspect / Description / KPI		Statement/Section	Page No.	"Comply or Explain"
B3 Development and Training				
B3	General Disclosure	4.5 Training and Development	11	✓
B3.1	Percentage of employees trained by gender and employee category	Not Disclosed	N/A	
B3.2	Average training hours completed per employee by gender and employee category	4.5 Training and Development	11	
B4 Labour Standard				
B4	General Disclosure	4.2 Labour Standard	9	✓
B4.1	Description of measures to review employment practices to avoid child and forced labour	4.2 Labour Standard	9	
B4.2	Description of steps taken to eliminate such practices when discovered	4.2 Labour Standard	9	
B5 Supply Chain Management				
B5	General Disclosure	3. Delivering Quality Services	5	✓
B5.1	Number of suppliers by geographical region	Not Disclosed	N/A	
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	3.1 Quality Control	5 - 6	
B6 Product Responsibility				
B6	General Disclosure	3. Delivering Quality Services	5	✓
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	3.1 Quality Control	5 - 6	
B6.2	Number of products and service related complaints received and how they are dealt with.	3.1 Quality Control	5 - 6	
B6.3	Description of practices relating to observing and protecting intellectual property rights	3.2 Intellectual Property Right & Customer Data Protection	6	

Aspect / Description / KPI		Statement/Section	Page No.	“Comply or Explain”
B6.4	Description of quality assurance process and recall procedures.	3.1 Quality Control	5 - 6	
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	3.2 Intellectual Property Right & Customer Data Protection	6	
B7 Anti-Corruption				
B7	General Disclosure	4.4 Anti-Corruption	10	✓
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Year and the outcomes of the cases	4.4 Anti-Corruption	10	
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	4.4 Anti-Corruption	10	
B8 Community Investment				
B8	General Disclosure	5. Investing in the Community	12	✓
B8.1	Focus areas of contribution	5. Investing in the Community	12	
B8.2	Resources contributed	5. Investing in the Community	12 – 13	