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ZHICHENG TECHNOLOGY GROUP LTD.

(志 承 科 技 集 團 有 限 公 司^{*})

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8511)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018**

**CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG
LIMITED (THE “STOCK EXCHANGE”)**

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

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This announcement, for which the directors (the “**Directors**”) of Zhicheng Technology Group Ltd. (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

HIGHLIGHTS

Recorded an unaudited revenue of approximately HK\$8.4 million for the six months ended 30 September 2018, representing a decrease of approximately 7.8% as compared to the corresponding period of the previous year.

Recorded an unaudited loss attributable to the owners of the Company of HK\$3.5 million for the six months ended 30 September 2018, compared to the loss of HK\$10.3 million in the corresponding period of the previous year, which was mainly attributed to the decrease in administrative expenses.

Basic and diluted losses per share for the six months ended 30 September 2018 were approximately HK0.9 cents (2017: basic and diluted losses per share approximately HK3.50 cents).

The board of Directors (the “**Board**”) of the Company presents the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 September 2018 (the “**Reporting Period**”), together with the comparative figures for the corresponding period of 2017 as follows:

The unaudited condensed consolidated interim results have not been reviewed by the Company’s auditors, but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the three months ended 30 September		For the six months ended 30 September	
		2018	2017	2018	2017
	Note	HK\$’000 (Unaudited)	HK\$’000 (Unaudited)	HK\$’000 (Unaudited)	HK\$’000 (Audited)
Revenue	4	6,840	3,400	8,421	9,133
Cost of sales	5	(2,494)	(1,384)	(3,618)	(2,667)
Gross profit		4,346	2,016	4,803	6,466
Selling and marketing expenses	5	(1,372)	(388)	(2,214)	(848)
Administrative expenses	5	(1,854)	(10,758)	(6,349)	(16,314)
Other (losses)/income — net		(275)	24	82	24
Operating profit/(loss)		845	(9,106)	(3,678)	(10,672)
Finance income		1	—	268	1
Profit/(Loss) before income tax		846	(9,106)	(3,410)	(10,671)
Income tax expense	6	(257)	454	(101)	352
Profit/(Loss) attributable to: Owners of the Company		589	(8,652)	(3,511)	(10,319)
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Currency translation differences		—	(68)	—	(68)
Other comprehensive income for the period, net of tax		—	(68)	—	(68)
Total comprehensive income attributable to:					
Owners of the Company		589	(8,720)	(3,511)	(10,387)
Earnings/(Losses) per share					
— Basic and diluted (HK cents)	8	0.15	(2.92)	(0.9)	(3.50)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 September 2018	31 March 2018
	<i>Note</i>	HK\$'000 (Unaudited)	HK\$'000 (Audited)
ASSETS			
Non-current assets			
Equipment	9	142	95
Intangible assets		345	403
		<u>487</u>	<u>498</u>
Current assets			
Trade receivables	10	12,924	31,087
Other receivables	11	1,014	246
Amounts due from a related party		–	3,734
Prepayments		5,852	17,268
Cash and cash equivalents		35,698	1,530
Restricted cash		1,821	429
		<u>57,309</u>	<u>54,294</u>
Total assets		<u><u>57,796</u></u>	<u><u>54,792</u></u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	14	312	–
Other reserves		52,186	1,806
(Accumulated losses)/Retained earnings		(556)	2,955
Total equity		<u><u>51,492</u></u>	<u><u>4,761</u></u>

		30 September 2018	31 March 2018
	<i>Note</i>	HK\$'000 (Unaudited)	HK\$'000 (Audited)
LIABILITIES			
Current liabilities			
Trade payables	12	1,110	8,307
Amounts due to a related party		–	10,155
Current income tax liabilities		1,247	431
Contract liabilities		–	62
Other payables	13	3,497	31,076
		5,854	50,031
Total liabilities		5,854	50,031
Total Equity and Liabilities		57,796	54,792

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserves <i>HK\$'000</i>	Foreign exchange reserves <i>HK\$'000</i>	Other reserves <i>HK\$'000</i>	(Accumulated losses)/ retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 April 2017							
(Audited)	–	–	634	–	–	14,491	15,125
Comprehensive income							
— Loss for the period	–	–	–	–	–	(10,319)	(10,319)
— Other comprehensive income	–	–	(68)	–	–	–	(68)
Total comprehensive income	–	–	(68)	–	–	(10,319)	(10,387)
Issuance of shares	–	1,260	–	–	–	–	1,260
Deemed distributions to the then owner of a group company	–	–	(389)	–	–	–	(389)
Balance at 30 September 2017							
(Audited)	–	1,260	177	–	–	4,172	5,609
Balance at 1 April 2018							
(Audited)	–	1,260	163	82	301	2,955	4,761
Comprehensive income							
— Loss for the period	–	–	–	–	–	(3,511)	(3,511)
— Other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	(3,511)	(3,511)
Issuance of shares by capitalisation	234	(234)	–	–	–	–	–
Issuance of shares	78	64,922	–	–	–	–	65,000
Shares issuance costs	–	(14,308)	–	–	–	–	(14,308)
Balance at 30 September 2018							
(Unaudited)	312	51,640	163	82	301	(556)	51,942

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended	
	30 September	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Cash flow from operating activities		
Cash (used in)/generated from operations	(13,567)	7,267
Income tax refunded/(paid)	845	(3,911)
Net cash (used in)/generated from operating activities	(12,722)	3,356
Cash flows from investing activities		
Purchase of equipment	(521)	(33)
Net cash used in investing activities	(521)	(33)
Cash flows from financing activities		
Receipt of cash advances from a related party	3,734	11,325
Payment of cash advances to a related party	(10,155)	(15,379)
Payment for listing expenses	(11,159)	(1,839)
Proceeds from issuance of new shares	65,000	1,260
Net cash generated from/(used in) financing activities	47,420	(4,633)
Net increase/(decrease) in cash and cash equivalents	34,177	(1,310)
Cash and cash equivalents at beginning of the period	1,530	2,311
Exchange (losses)/gains on cash and cash equivalents	(9)	64
Cash and cash equivalents at end of the period	35,698	1,065

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INTERIM STATEMENTS

1 GENERAL INFORMATION

Zhicheng Technology Group Ltd. The address of its registered office is Sertus Chambers, Governors Square, Suite # 5-204, 23 Lime Tree Bay Avenue, P.O. Box 2547 Grand Cayman, KY1-1104 Cayman Islands (the “**Company**”) was incorporated as an exempted company under the laws of the Cayman Islands with limited liability on 23 June 2017. The Shares of the Company were listed on GEM of the Stock Exchange on 20 April 2018.

The Company is an investment holding company and its principal subsidiaries are principally engaged in the provision of smart manufacturing solutions including sales of equipment and provision of relevant technical service (the “**Listing Business**”) in the People’s Republic of China (the “**PRC**”).

These unaudited condensed consolidated interim financial statements are presented in Hong Kong dollar (“**HK\$**”), unless otherwise stated, and have been approved for issue by the board of directors (the “**Board**”) of the Company on 12 November 2018.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “**Interim financial reporting**”. The unaudited condensed consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, the unaudited condensed consolidated interim financial statements are to be read in conjunction with the annual report for the year ended 31 March 2018 and any public announcements made by the Company during the interim reporting period.

The accounting policies applied are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended Hong Kong Financial Reporting Standards (“**HKFRS**”) as set out below.

2.1 New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group has to change its accounting policies as a result of adopting the following standards:

- HKFRS 9 Financial Instruments
- HKFRS 15 Revenue from Contracts with Customers

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group’s condensed consolidated interim financial statements and also discloses the new accounting policies that have been applied from 1 April 2018, where they are different to those applied in previous periods.

2.2.1 HKFRS 9 Financial Instruments

(a) Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 April 2018 resulted in changes in accounting policies. The new accounting policies are set out in Note 2.2.1 (b) below.

(i) Classification and measurement

On 1 April 2018 (the date of initial application of HKFRS 9), the Group's management assessed which business models should apply to the financial assets held by the Group and had classified its financial instruments into the appropriate HKFRS 9 categories. All classes of financial assets and financial liabilities had the same carrying amounts in accordance with HKAS 39 and HKFRS 9 on 1 April 2018.

(ii) Impairment of financial assets

The Group's significant financial assets which are subject to the new expected credit loss model include trade and other receivables. The Group is required to revise its impairment methodology under HKFRS 9 for these classes of financial assets.

The adoption of HKFRS 9 has not resulted in any additional impairment loss for financial assets as at 1 April 2018.

(b) Accounting policies applied from 1 April 2018

(i) Classification and measurement

From 1 April 2018, the Group has classified its financial assets to be measured at amortized cost. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement depends on the Group's business model for managing the assets and the cash flow characteristics of the assets. The Group classifies its financial assets under amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other losses, net, together with foreign exchange gains and losses.

(ii) Impairment of financial assets

Impairment is made on the expected credit losses model under HKFRS 9, which are the present value of the cash shortfalls over the expected life of the financial assets. The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

2.2.2 HKFRS 15 Revenue from Contracts with Customers

(a) Impact of adoption

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 April 2018, resulting in changes in accounting policies. In accordance with the transitional provisions in HKFRS 15, comparative figures have not been restated.

The directors has assessed that there is no material change of accounting policy for revenue recognition with the adoption of HKFRS 15.

3 ESTIMATES

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing the condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2018.

4 REVENUE

Revenue by nature:

	For the three months ended 30 September		For the six months ended 30 September	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Precision 3D scanning solutions				
— Sales of equipment	4,490	3,400	4,490	6,894
— Technical services	2,350	—	3,027	2,239
	<u>6,840</u>	<u>3,400</u>	<u>7,517</u>	<u>9,133</u>
Precision machining solutions				
— Sales of equipment	—	—	904	—
— Technical services	—	—	—	—
	<u>—</u>	<u>—</u>	<u>904</u>	<u>—</u>
Total	<u>6,840</u>	<u>3,400</u>	<u>8,421</u>	<u>9,133</u>

Revenue by type of solutions:

	For the three months ended 30 September		For the six months ended 30 September	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Precision 3D testing solutions				
— Static 3D scanning	5,729	3,400	6,406	8,485
— Dynamic 3D scanning	1,111	—	1,111	648
	<u>6,840</u>	<u>3,400</u>	<u>7,517</u>	<u>9,133</u>
Precision machining solutions	—	—	904	—
Total	<u>6,840</u>	<u>3,400</u>	<u>8,421</u>	<u>9,133</u>

5 EXPENSES BY NATURE

	For the three months ended 30 September		For the six months ended 30 September	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Cost of goods sold	2,037	781	2,959	2,048
Professional fees	704	1,262	1,969	1,628
Travelling expenses	786	618	2,650	1,137
Staff costs	1,121	575	2,082	1,057
Entertainment expenses	317	227	771	328
Operating lease payments	210	178	321	245
Outsourcing research and development expenses	215	—	708	671
Advertising and promotion fees	134	122	169	240
Office utilities	81	92	126	225
Depreciation and amortisation	26	21	43	40
Auditor's remuneration				
— Audit services	19	—	19	—
Listing expenses	—	8,323	—	11,811
Other expenses	70	331	364	399
Total cost of sales, selling and marketing expenses and administrative expenses	<u>5,720</u>	<u>12,530</u>	<u>12,181</u>	<u>19,829</u>

6 INCOME TAX EXPENSE

	For the three months ended 30 September		For the six months ended 30 September	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Current income tax				
— PRC corporate income tax	75	127	101	342
— Others	—	(70)	—	—
Deferred income tax	182	(511)	—	(694)
	<u>257</u>	<u>(454)</u>	<u>101</u>	<u>(352)</u>

No income tax relating to components of other comprehensive income was charged for the year ended 30 September 2018 (2017: same).

- (a) Pursuant to the Corporate Income Tax Law of the PRC (the “CIT Law”) and the Implementation Rules of the CIT Law in the PRC, the standard tax rate is 25% for the Group’s subsidiaries and operations in the PRC. On 11 December 2017, Quick Tech Corporation Ltd. (“Quick Tech”), the Group’s subsidiary incorporated in the PRC, was awarded the High and New Technology Enterprise which is effective for three years commencing on 1 January 2017 and is entitled to preferential income tax rate of 15% for these three years.
- (b) Hong Kong Cheng Phong Technology Limited (“Hong Kong Cheng Phong”), Bow Chak Industry (HK) Limited (“Bow Chak”) and MGW Swans Ltd. (“MGW Swans”) are the Group’s subsidiaries incorporated in Hong Kong and BVI. However, their principal businesses were carried out in the PRC and the related income was subject to PRC corporate income tax. Hong Kong Cheng Phong, Bow Chak and MGW Swans were approved by the PRC in-charge tax bureau to pay PRC income tax on a “deemed profit basis”, according to which their taxable income was calculated at 15% of revenue for the six months ended 30 September 2018 (2017: same).
- (c) The statutory Hong Kong profits tax rate is 16.5%.

Hong Kong Cheng Phong and Bow Chak are Hong Kong incorporated companies and are obligated to file their profits tax returns to Hong Kong Inland Revenue Department. In their tax filing for previous years, Hong Kong Cheng Phong and Bow Chak have reported their income as onshore sourced and taxable under Hong Kong profits tax and paid Hong Kong profits tax though they have also paid the PRC corporate income tax as mentioned by Note (b) above. After reviewing the companies’ operations, Hong Kong Cheng Phong and Bow Chak plan to report their income derived during the year as offshore sourced and not subject to Hong Kong profits tax. However, the offshore claim will be subject to review and agreement of the Hong Kong Inland Revenue Department and cannot be ascertained at the date of these consolidated financial statements. Thus, Hong Kong Cheng Phong and Bow Chak will true up their income tax provision according to 16.5% profits tax rate in Hong Kong.

No provision for Hong Kong profits tax was made for the Company’s subsidiary in Hong Kong other than Hong Kong Cheng Phong and Bow Chak because it does not have any assessable profits in Hong Kong for the six months ended 30 September 2018.

7 DIVIDEND

The directors did not recommend the payment of any interim dividend for the six months ended 30 September 2018 (2017: nil).

8 EARNINGS/(LOSSES) PER SHARE

Basic earnings/(losses) per share is calculated by dividing the profit/(loss) for the period by the weighted average number of ordinary shares in issue during the period. In determining the weighted average number of the ordinary shares in issue for the six months ended 30 September 2018, the 100,000 ordinary shares issued during the Reorganisation were deemed to be in issue throughout the period. The public offer of 100,000,000 shares resulted from the listing on 20 April 2018 and 299,900,000 shares resulted from the capitalisation issue on 20 April 2018 have also been taken into account.

	For the three months ended 30 September		For the six months ended 30 September	
	2018	2017	2018	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Profit for the period attributable to owners of the Company (HK\$'000)	589	(8,652)	(3,511)	(10,319)
Weighted average number of ordinary shares in issue (thousand of shares)	400,000	296,348	389,617	295,180
Basic earnings/(losses) per share (HK cents)	0.15	(2.92)	(0.90)	(3.50)

Diluted earnings/(losses) per share presented is the same as the basic earnings/(losses) per share as there were no potentially dilutive ordinary shares issued during the six months ended 30 September 2018 (2017: same).

9 EQUIPMENT

For the six months ended 30 September 2018, the Group acquired equipment at a cost of HK\$71,000 (for the six months ended 30 September 2017: HK\$33,000). For the six months ended 30 September 2018, the Group did not dispose of or write off equipment (for the six months ended 30 September 2017: nil).

10 TRADE RECEIVABLES

	30 September 2018 HK\$'000 (Unaudited)	31 March 2018 HK\$'000 (Audited)
Trade receivables	12,924	31,087

- (a) Aging analysis of trade receivables based on invoice date is as follows:

	30 September 2018 HK\$'000 (Unaudited)	31 March 2018 HK\$'000 (Audited)
Within 30 days	5,791	27,902
1 to 3 months	390	–
3 to 6 months	407	–
6 months to 1 year	6,119	1,171
1 to 2 years	217	2,014
Total	12,924	31,087

The majority of the Group's sales are made on letter of credit. The remaining sales are usually with credit terms of 30 days.

- (b) As at 30 September 2018, trade receivables of HK\$7,133,000 were past due but not impaired (31 March 2018: HK\$3,185,000). These amounts related to a number of independent customers for whom there was no significant financial difficulty and based on past experience, the overdue amounts could be recovered. As at the date of this announcement, trade receivables of HK\$5,880,000 were recovered. The aging analysis of these trade receivables is as follows:

	30 September 2018 HK\$'000 (Unaudited)	31 March 2018 HK\$'000 (Audited)
1 to 3 months	390	–
3 to 6 months	407	–
6 months to 1 year	6,119	1,171
1 to 2 years	217	2,014
Total	7,133	3,185

11 OTHER RECEIVABLES

	30 September 2018 HK\$'000 (Unaudited)	31 March 2018 HK\$'000 (Audited)
Tendering deposits	257	62
Advances to employees	444	95
Others	313	89
	1,014	246

12 TRADE PAYABLES

	30 September 2018 HK\$'000 (Unaudited)	31 March 2018 HK\$'000 (Audited)
Trade payables	1,110	8,307

The aging analysis of trade payables is as follows:

	30 September 2018 HK\$'000 (Unaudited)	31 March 2018 HK\$'000 (Audited)
Within 30 days	530	7,227
1 to 3 months	–	–
3 to 6 months	–	399
6 months to 1 year	42	–
1 to 2 years	–	141
Over 2 years	538	540
Total	1,110	8,307

13 OTHER PAYABLES

	30 September 2018 HK\$'000 (Unaudited)	31 March 2018 HK\$'000 (Audited)
Accrued listing expenses	300	26,867
Other accrued expenses	2,567	2,647
Payroll payables	351	576
Other tax liabilities	279	986
	3,497	31,076

14 SHARE CAPITAL

	Note	Number of shares		Share capital			
		As at 30 September 2018	As at 31 March 2018	As at 30 September 2018		As at 31 March 2018	
				US\$	HK\$	US\$	HK\$
Authorised:							
Ordinary share of							
US\$0.0001 each:	<i>a</i>	<u>5,000,000,000</u>	<u>5,000,000,000</u>	<u>500,000</u>	<u>3,905,000</u>	<u>500,000</u>	<u>3,905,000</u>

		For the six months ended 30 September 2018	For the year ended 31 March 2018	For the six months ended 30 September 2018		For the year ended 31 March 2018	
	Note			US\$	HK\$	US\$	HK\$
<i>Issued and fully paid:</i>							
At 1 April 2018 (2017: at 23 June 2017 (date of incorporation))	a	100,000	1	–	–	–	–
Issue shares to IFG Swans	b	–	97,980	10	78	10	78
Issue shares to Ms. Ching	c	–	19	–	–	–	–
Issue shares to an independent investor	d	–	2,000	–	–	–	–
Issue of shares by Capitalisation Shares	e	299,900,000	–	29,990	234,222	–	–
Issue of shares by way of placing and public offer	f	100,000,000	–	10,000	78,100	–	–
		<u>400,000,000</u>	<u>100,000</u>	<u>40,000</u>	<u>312,400</u>	<u>10</u>	<u>78</u>

- (a) On 23 June 2017, the Company was incorporated in the Cayman Islands with an authorised share capital of 500,000,000 ordinary shares of US\$0.0001 each. Upon the incorporation of the Company, one subscriber share was allotted and issued to its parent company, IFG Swans, which is wholly owned by the Controlling Shareholder. On 26 March 2018, the authorised shares were increased to 5,000,000,000 ordinary shares of US\$0.0001 each.
- (b) On 25 August 2017, the Company issued 97,950 Shares as fully paid to IFG Swans and on 18 September 2017, the Company further issued 10 shares each to IFG Swans for the acquisition of Hong Kong Cheng Phong, Bow Chak and MGW Swans, respectively, pursuant to the Reorganisation.
- (c) On 1 August 2017, Mr. Wu Di (“**Mr. Wu**”) sold 3% of his equity interest in Quick Tech to Ms. Ching Li Wen (“**Ms. Ching**”), an independent third party at consideration of RMB10,200 with reference to the fair value of Quick Tech. On 28 August 2017, Hong Kong Zhi Phong Technology Limited (“**Hong Kong Zhi Phong**”) acquired the 3% equity interest in Quick Tech from Ms. Ching at consideration of RMB10,200, which was satisfied by allotment and issuance of 19 shares by the Company as fully paid to Ms. Ching. On 28 August 2017, Hong Kong Zhi Phong further acquired the remaining 97% equity interest of Quick Tech from Mr. Wu at cash consideration of RMB331,200.
- (d) On 26 August 2017, Professor Yang Zhuoru, an independent third party, subscribed for 2,000 shares newly issued by the Company at cash consideration of approximately HK\$1,260,120.
- (e) Pursuant to the resolutions of the shareholders passed on 26 March 2018, 299,900,000 shares of US\$0.0001 each of the Company were allotted and issued at par to the then shareholders in proportion to their respective shareholdings as of 26 March 2018 by capitalisation of the sum of HK\$234,222 standing to the credit of the share premium account of the Company as a result of the placing and public offer of the Company’s shares on 20 April 2018.
- (f) The Company issued 60,000,000 new shares of HK\$0.65 each by way of placing and 40,000,000 new shares by way of public offer at the price of HK\$0.65 per share in connection with the listing of the Company’s shares on GEM on 20 April 2018.

BUSINESS REVIEW AND OUTLOOK

The Group is a smart manufacturing solution provider focusing on precision 3D testing solutions and precision machining solutions in China. The Company provides smart manufacturing solutions to serve the needs of high-end equipment manufacturers which require a high level of precision in the manufacture of their industrial products. Its solutions comprise and integrate 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 aftersales services such as technical support and training.

The shares of the Company (the “**Shares**”) were successfully listed (the “**Listing**”) on GEM of the Stock Exchange on 20 April 2018 (the “**Listing Date**”), which marked a key milestone for the Group.

For the six months ended 30 September 2018, the Group strived for organic growth by actively approaching new customers of various industries and regions, as well as consolidating relationships with existing customers. During the period, 8 new precision 3D testing projects were obtained, and 8 existing projects were completed by the Group. Thus, the Group had 12 projects on 30 September 2018. Furthermore, from 1 October 2018 to the date of this announcement, the Group won the bidding of 2 precision 3D testing projects and 1 precision manufacturing project. The Group will continue to innovate and develop new technologies and make use of solutions that advance with the times, aiming to meet the ever-growing market demands.

The Group committed to dedicating its efforts on developing new technology including new auxiliary tools design and relevant software applications. As at 30 September 2018, the Group has 8 registered patents, including 3 invention patents and 5 utility model patents, and 5 pending invention patent registrations.

Looking ahead, the Company will continue to maintain its technology advantages and promote its integrated smart manufacturing solutions. The smart manufacturing solution market where the Group partakes in features high technological requirements and rapid fresh cycle for technology. To align with the latest and forthcoming technology, the Group will keep abreast the industry changes and promote the Company’s products by organising seminars and participating in exhibitions. The Group held a large-scale product application seminar in Zhuhai for its existing and potential clients at the beginning of November, 2018 and achieved great success. Besides, the Group will continue to establish its research and development centres in Beijing and Guangzhou to develop advanced solutions and technology applications. Meanwhile, the Group is also planning to continue its cooperation with prestigious colleges and universities in terms of technology.

In order to expand business, stimulate growth and increase market share and competitiveness, the Group will continue to expand its talent pool to recruit professional sales and marketing staffs, as well as administrative staffs, for future business expansion. The Group plans to establish branches in different cities (e.g. Chongqing and Changsha) for sales coverage expansion. We will also provide our customers with better services, aiming at increase the added-value of our products.

FINANCIAL REVIEW

Revenue

For the six months ended 30 September 2018, the Group recorded revenue of approximately HK\$8.4 million, representing a decrease of 7.8% comparing with that of approximately HK\$9.1 million for the six months ended 30 September 2017. Set out below is the revenue breakdown of the Group for the six months ended 30 September 2018 and the six months ended 30 September 2017:

	Six months ended 30 September 2018		2017	
	Revenue HK\$'000	% of revenue %	Revenue HK\$'000	% of revenue %
Precision 3D testing solutions				
Static 3D scanning	6,406	76.1	8,485	92.9
Dynamic 3D scanning	1,111	13.2	645	7.1
Overall precision 3D testing solutions	7,517	89.3	9,133	100.0
Precision machining solutions	904	10.7	–	–
All solutions	8,421	100.0	9,133	100.0

Precision 3D testing solutions: Revenue from precision 3D testing solutions decreased by 17.7% to HK\$7.5 million for the six months ended 30 September 2018 from HK\$9.1 million for the six months ended 30 September 2017. This decrease was mainly attributable to a decrease in the contract value of precision 3D testing solutions undertaken by the Group. For the six months ended 30 September 2018, the Group's revenue was derived from 12 projects. 8 of them were related to provision of technical services, and the revenue recognised from which was relatively low. According to the actual requirements of the remaining 4 projects, Chinese-made equipment was provided. Thus, the contract prices were relatively low. For the six months ended 30 September 2017, the Company carried out 7 projects, and the overall contract prices were relatively high.

Precision machining solutions: For the six months ended 30 September 2018, the Company has carried out 1 precision machining solutions project and recorded a revenue of HK\$0.9 million, while for the six months ended 30 September 2017, the Company did not carry out any precision machining solutions project.

Cost of sales

Cost of sales increased by 35.7% to HK\$3.6 million for the six months ended 30 September 2018 from HK\$2.7 million for the six months ended 30 September 2017, mainly due to the increase in equipment costs. The reason for the increase in equipment costs is that the number of projects providing equipment in this period is relatively high.

Gross profit and gross profit margin

As a result of the foregoing, gross profit decreased by 25.7% to HK\$4.8 million for the six months ended 30 September 2018 from HK\$6.5 million for the six months ended 30 September 2017. Its gross profit margin decreased to 57.0% for the six months ended 30 September 2018 from 70.8% for the six months ended 30 September 2017. The decrease is due to the following reasons: First, the Company carried precision machining solutions projects generally have a lower gross profit margin for the six months ended 30 September 2018. Second, the relatively low overall prices of the above-mentioned precision testing projects for the current period, whereas 7 precision testing projects with relatively high gross profit margin were carried out for the six months ended 30 September 2017.

Selling and marketing expenses

Selling and marketing expenses increased to HK\$2.2 million for the six months ended 30 September 2018 from HK\$0.8 million for the six months ended 30 September 2017. This increase was mainly attributable to an increase in advertising and promotion fees as the Company has enhanced its marketing efforts.

Administrative expenses

Administrative expenses decreased by 61.1% to HK\$6.3 million for the six months ended 30 September 2018 from HK\$16.3 million for the six months ended 30 September 2017. The decrease was mainly due to the absence of listing expenses of HK\$11.8 million, which was offset by an increase of HK\$1.8 million in expenses arising from operation expansion.

Income tax expense

The Company had an income tax expense of HK\$101,000 for the six months ended 30 September 2018. Income tax expense included the PRC income tax of Hong Kong Cheng Phong, Bow Chak and MGW, calculated on a deemed profit basis. The calculation of effective tax rate was not applicable as the Group had recorded a loss before income tax of approximately HK\$3.4 million.

Loss

The Company recorded a loss of HK\$3.5 million for the six months ended 30 September 2018 compared to a loss of HK\$10.3 million for the six months ended 30 September 2017. The decrease in loss was mainly due to the abovementioned decrease in administrative expense.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Borrowings

As at 30 September 2018, the Group did not have any bank borrowings and other interest-bearing borrowings.

Contingent Liabilities

As at 30 September 2018, the Group did not have any significant contingent liabilities.

Capital Commitments

As at 30 September 2018, the Group had the following non-cancellable operating lease commitments:

	<i>HK\$'000</i>
No later than 1 year	<u>218</u>

Pledge of Assets

As at 30 September 2018, the Group did not have any pledge on its assets.

Exchange Rate Risk Exposure

For the operating entities of the Group that are incorporated in Hong Kong and the British Virgin Islands, their functional currencies are United States dollars (“US\$”). As certain trade and other receivables, bank balances, trade and other payables of overseas entities are denominated in Hong Kong dollars or Euro (“EUR”), currencies other than the functional currencies of the entities may cause the foreign exchange risk. Under the Linked Exchange Rate System in Hong Kong, HK\$ is pegged to US\$, the Board considers that there is no significant foreign exchange risk with respect to HK\$. Therefore, the foreign exchange risk mainly arises from the monetary assets and liabilities denominated in EUR, which the Board considers as not significant to the Group.

The Group has not entered into forward exchange contract to hedge its exposure to foreign exchange risk.

SIGNIFICANT INVESTMENTS HELD

As at 30 September 2018, the Group did not hold any significant investments.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Except for the investment regarding research and development centres as disclosed in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 29 March 2018 (the “**Prospectus**”), as at 30 September 2018, the Group did not have any plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the six months ended 30 September 2018, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies, save as reorganisation for the purpose of Listing as disclosed in the section headed “History, Reorganisation and Corporate Structure” in the Prospectus.

EMPLOYEES AND EMOLUMENT POLICIES

As at 30 September 2018, the Group had a total of 27 (2017: 19) employees, including executive directors of the Group Companies. The Group values employees because they are pivotal to our success. To recruit, develop and retain talented employees, the Group has provided its employees competitive remuneration packages, including internal promotion opportunities and performance-based bonus. The remuneration committee of the Company shall make recommendation to its Board on the overall remuneration policy and structure relating to all Directors and senior management; review remuneration proposals of the management with reference to its Board’s corporate goals and objectives; and ensure none of its Directors or any of their associates determine their own remuneration.

PRINCIPAL RISKS AND UNCERTAINTIES

Business risk

The principal business of the Group is to provide smart manufacturing solutions to its customers on a project basis. As there are not any long term contractual arrangements with its customers, no assurance that the Group will continue to secure new contracts or maintain or increase its current level of business activities with existing or future customers in the future. Therefore, the Group is increasing its sales and marketing efforts, expanding its sales teams and administrative teams, sales points and sales coverage, aiming to continuously get new tenders, secure contracts from more customers and increase market share.

The Group’s major customers are high-end equipment manufacturers in the aviation, aerospace, shipbuilding, ground transportation vehicles and electronics industries. The market for smart manufacturing solutions is characterised by rapidly changing technologies and evolving developments. The success of its business is dependent upon its ability to continuously develop, in a timely manner, new technological applications through research and development and introduce new solution designs to cater its customers’ requirements. Therefore, the Group intends to increase its research and development efforts, establish its own research and development centres, recruit more technical staff, so as to hold its edges and competitiveness in terms of technology.

Credit risk

Credit risk mainly arises from cash and cash equivalents, restricted cash, trade receivables and other receivables. The carrying amount of these balances in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to its financial assets. The Group has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the operations and mitigate the effects of fluctuations in cash flows. The Group expects to fund its future cash flow needs through internally generated cash flows from operation and other channels.

USE OF PROCEEDS

The Shares were listed on GEM of the Stock Exchange on 20 April 2018, and all of the funds raised from the initial public offering have been received within the six months ended 30 September 2018. The Company intended to apply the net proceeds of approximately HK\$25 million in the manner as described in the section headed "Use of Proceeds" in the annual report of the Company dated 27 June 2018 ("**2017 Annual Report**"). As at 30 September 2018, all of the unutilised net proceeds have been deposited into bank accounts under the name of the Group.

Set out below is the use of the net proceeds for the six months ended 30 September 2018:

Use of proceeds	Amount of planned use according to the 2017 Annual Report <i>HK\$ million</i>	Amount used during the current period since the Listing Date <i>HK\$ million</i>	Remaining balance <i>HK\$ million</i>	Expected time of full utilisation of the remaining balance
Establishing our own research and development centres and further research and development expenditures relating to product research and development, recruitment and provision of training for technical staff	11.9	3.2	8.7	March 2020

Use of proceeds	Amount of planned use according to the 2017 Annual Report <i>HK\$ million</i>	Amount used during the current period since the Listing Date <i>HK\$ million</i>	Remaining balance <i>HK\$ million</i>	Expected time of full utilisation of the remaining balance
Business expansion, including establishment of sales branches in different regions in China, expansion of office premises, recruitment of management and local salesforces for various branches and provision of relevant internal and external training	6.8	1.4	5.4	March 2020
Organising seminars, participating in local and international exhibitions and developing and implementing advertising plans	3.8	0.8	3	March 2020
Working capital and general corporate purposes	2.5	0.6	1.9	March 2020
	<u>25</u>	<u>6</u>	<u>19</u>	

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 September 2018, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to Section 352 of the SFO, to be recorded in the register referred therein; or (c) pursuant to Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

(I) Long position in Shares or underlying Shares of the Company

Name of Directors	Nature of interest	Number of Shares or underlying Shares held			Percentage of issued share capital
		Ordinary Share	Shares option	Total	
Mr. Wu Di	Interest in a controlled corporation	293,940,000 “L”	–	293,940,000	73.485%

Notes:

- (1) The letter “L” denotes the Director’s long position in the Shares.
- (2) The disclosed interest represents the interest in the Company held by IFG Swans Holding Ltd. (“**IFG Swans**”). The entire issued share capital of IFG Swans is wholly owned by Mr. Wu. By virtue of the SFO, Mr. Wu is deemed to be interested in the Shares held by IFG Swans.

(II) Long position in Shares or underlying Shares of associated corporation

Name of Directors	Name of associated corporation	Capacity/ Nature	No. share(s) held	Percentage of interest
Mr. Wu Di	IFG Swans	Beneficial owner	1	100%

Save as disclosed above and so far the Directors, as at 30 September 2018, none of the Directors and chief executive of the Company had any interests or short positions in the Share, underlying Shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to Section 352 of the SFO, to be recorded in the register referred therein; or (c) pursuant to Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 September 2018, the interests and short positions of the substantial shareholders of the Company (other than the Directors and the chief executives of the Company) in the Shares and underlying Shares of the Company which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required, pursuant to Section 336 of the SFO, to be entered in the register to therein, were as follows:

Name of Substantial Shareholder	Long/short position	Capacity/Nature	Number of Shares	Percentage of issued share capital
IFG Swans	Long position	Beneficial owner	293,940,000	73.485%
RUAN David Ching Chi	Long position	Interest of a controlled corporation	29,116,000	7.28%
RAYS Capital Partners Limited	Long position	Investment manager	29,116,000	7.28%
Asian Equity Special Opportunities Portfolio Master Fund Limited	Long position	Beneficial owner	28,104,000	7.03%

Note: Mr. RUAN David Ching Chi holds 95.24% shareholding in RAYS Capital Partners Limited, which holds 100% shareholding in Asian Equity Special Opportunities Portfolio Master Fund Limited. Therefore, the Mr. RUAN David Ching Chi is deemed to be interested in the shares held by Asian Equity Special Opportunities Portfolio Master Fund Limited.

Save as disclosed above, as at 30 September 2018, the Directors were not aware of any other persons/entities (other than the Directors and chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme (the “**Share Option Scheme**”) on 26 March 2018 which took effect on the Listing Date.

Further particulars of the Share Option Scheme are set out in the section headed “Statutory and General Information — 13. Share Option Scheme” in Appendix IV to the Prospectus.

No options were granted, exercised, cancelled or lapsed from the date of adoption of the Share Option Scheme to 30 September 2018 and there were no outstanding options from the date of the adoption of the Share Option Scheme to 30 September 2018.

INTERESTS IN COMPETING BUSINESS

For the six months ended 30 September 2018, none of the Directors or any of their respective close associates (as defined under the GEM Listing Rules) are engaged in any business that competes or may compete, directly or indirectly, with the business of the Group or have any other conflicts of interest with the Group nor are they aware of any other conflicts of interest which they have or may have with the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

None of the Company or any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the period from the Listing Date to 30 September 2018.

INTERESTS OF COMPLIANCE ADVISER

As advised by the Company’s compliance adviser, RaffAello Capital Limited (the “**Compliance Adviser**”), save for the Compliance Adviser’s agreement entered into between the Company and the Compliance Adviser dated 20 April 2018, neither the Compliance Adviser nor its directors, employees or close associates (as defined under the GEM Listing Rules) had any interest in the Group or in the share capital of the Company or any member of the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the Reporting Period, the Company had not entered into any connected transaction or continuing connected transactions which is subject to the disclosure requirements under the GEM Listing Rules.

CORPORATE GOVERNANCE PRACTICES

The corporate governance practices of the Group are based on the principles and the code provisions in the Corporate Governance Code (the “**Code**”) as set out in Appendix 15 to the GEM Listing Rules.

There was a deviation from code provision A.2.1 of the Code which stipulates that the roles of chairman and chief executive should be separated and should not be performed by the same individual. The Company considers that having Mr. Wu Di acting as both its chairman of the Board and its chief executive officer will provide a strong and consistent leadership to the Group and allow for more effective planning and management for the Group. In view of Mr. Wu Di’s extensive experience in the industry, personal profile and critical role in the Group and its historical development, the Company considers that it is beneficial to the business prospects of the Group that Mr. Wu Di continues to act as both its chairman and its chief executive officer.

Save as disclosed above, the Company has complied with the applicable code provisions of the Code as set out in Appendix 15 to the GEM Listing Rules since the Listing Date.

COMPLIANCE WITH THE REQUIRED STANDARD OF DEALINGS IN SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the “**Standard of Dealings**”), as its own code of conduct regarding Directors’ securities transactions. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he or she has complied with the required Standard of Dealings since the Listing Date and up to 30 September 2018.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 September 2018 (for the six months ended 30 September 2017: nil).

EVENTS AFTER THE REPORTING PERIOD

No significant events have occurred since the publication of the 2018 annual report.

AUDIT COMMITTEE

The Company has established the audit committee (the “**Audit Committee**”) with effect from 26 March 2018 with written terms of reference in compliance with the code provisions of the Code. The primary duties of the Audit Committee are to make recommendations to the Board on the appointment, re-appointment and removal of external auditors, review and supervise the Group’s financial reporting process and internal control system and to provide advice and comments to the Board.

The interim results of the Group for the six months ended 30 September 2018 have been reviewed by the Audit Committee in a meeting held on 12 November 2018.

By order of the Board
Zhicheng Technology Group Ltd.
Wu Di
Chairman

Hong Kong, 12 November 2018

As at the date of this announcement, the executive Directors are Mr. Wu Di and Ms. Liu Zhining; and the independent non-executive Directors are Mr. Tang Yong, Mr. Xing Shaonan and Mr. Tan Michael Zhen Shan.

This announcement will remain at the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least seven days from the date of its posting and on the website of the Company at www.ztecgroup.com.

* *For identification purposes only*