



ZHI CHENG HOLDINGS LIMITED

智城控股有限公司*

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8130)

INTERIM REPORT 2011

* For identification only

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This report, for which the directors (the “Directors”) of Zhi Cheng Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited 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 report is accurate and complete in all material aspects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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Unaudited Interim Results

The board of Directors (the “Board”) of Zhi Cheng Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2011, together with the unaudited comparative figures for the corresponding period in 2010 as follows:

Unaudited Condensed Consolidated Income Statement

	Notes	For the three months ended 30 September		For the six months ended 30 September	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Turnover	3	1,721	2,004	2,663	8,828
Cost of sales		-	(1,513)	-	(6,895)
Gross profit		1,721	491	2,663	1,933
Other income	3	226	61	583	213
Administration expenses		(36,579)	(23,154)	(67,886)	(49,139)
Loss on early redemption of promissory note		-	(13,624)	-	(100,732)
Loss from operations		(34,632)	(36,226)	(64,640)	(147,725)
Finance costs	5	(4,844)	(11,153)	(9,637)	(25,056)
Loss before taxation	6	(39,476)	(47,379)	(74,277)	(172,781)
Income tax	7	-	-	-	-
Loss attributable to owners of the Company		(39,476)	(47,379)	(74,277)	(172,781)
Loss per share: - Basic and diluted	8	HK cents (17.08)	HK cents (93.57)	HK cents (32.68)	HK cents (389.86)

Unaudited Interim Results

Unaudited Condensed Consolidated Statement of Comprehensive Income

	For the three months ended 30 September		For the six months ended 30 September	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Loss for the period	(39,476)	(47,379)	(74,277)	(172,781)
Other comprehensive income/(loss) for the period				
Exchange differences on translation of financial statements of overseas subsidiaries	(705)	552	(380)	149
Loss arising on change in fair value of available-for-sale investments	(6,000)	–	(6,000)	–
Total comprehensive loss for the period	(46,181)	(46,827)	(80,657)	(172,632)
Total comprehensive loss attributable to owners of the Company	(46,181)	(46,827)	(80,657)	(172,632)

Unaudited Interim Results

Condensed Consolidated Statement of Financial Position

	At 30 September 2011 HK\$'000 (Unaudited)	At 31 March 2011 HK\$'000 (Audited)
Non-current assets		
Property, plant and equipment	3,229	1,835
Investment properties	23,870	25,665
Goodwill	1,449	1,449
Intangible assets	1,044,886	1,053,920
Deferred tax assets	873	851
Available-for-sale investments	10,000	1,000
Total non-current assets	1,084,307	1,084,720
Current assets		
Trade and other receivables	37,423	30,650
Bank balance and cash	144,043	217,007
Total current assets	181,466	247,657
Current liabilities		
Trade and other payables	5,398	9,047
Bank loan	469	504
Tax payable	52	56
Total current liabilities	5,919	9,607

Unaudited Interim Results

	At 30 September 2011 HK\$'000 (Unaudited)	At 31 March 2011 HK\$'000 (Audited)
Net current assets	175,547	238,050
Total assets less current liabilities	1,259,854	1,322,770
Non-current liabilities		
Convertible bonds	186,329	176,720
Bank loan	624	920
Deferred tax liabilities	3,729	4,010
Total non-current liabilities	190,682	181,650
Equity		
Share capital	2,680	44,669
Reserves	1,066,492	1,096,451
Total equity	1,069,172	1,141,120
	1,259,854	1,322,770

Unaudited Interim Results

Unaudited Condensed Consolidated Statement of Changes in Equity

	Share capital	Share premium	Contributed surplus	Share-based compensation reserve	Convertible bonds reserve	Available-for-sale investments revaluation reserve	Statutory reserve	Translation reserve	Accumulated losses	Total
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
At 1 April 2010	73,247	641,041	197,928	4,293	374,195	-	394	911	(84,190)	1,207,819
Comprehensive income for the period	-	-	-	-	-	-	-	149	(172,781)	(172,632)
Open offer	18,311	164,806	-	-	-	-	-	-	-	183,117
Placing of new shares	1,899	37,021	-	-	-	-	-	-	-	38,920
Share issues expenses	-	(2,670)	-	-	-	-	-	-	-	(2,670)
Capital reduction	(85,434)	-	85,434	-	-	-	-	-	-	-
Conversion of new shares from convertible bonds	3,968	29,555	-	-	(22,508)	-	-	-	-	10,415
At 30 September 2010	11,391	869,753	283,362	4,293	351,687	-	394	1,060	(256,971)	1,264,969
At 1 April 2011	44,669	1,186,043	283,362	6,125	351,687	-	394	2,620	(733,780)	1,141,120
Comprehensive loss for the period	-	-	-	-	-	(6,000)	-	(380)	(74,277)	(80,657)
Capital reduction	(42,436)	-	42,436	-	-	-	-	-	-	-
Cancellation/lapse of share options	-	-	-	(4,628)	-	-	-	-	4,628	-
Issue of shares arising on acquisition of subsidiaries	447	7,147	-	-	-	-	-	-	-	7,594
Grant of share options	-	-	-	1,115	-	-	-	-	-	1,115
At 30 September 2011	2,680	1,193,190	325,798	2,612	351,687	(6,000)	394	2,240	(803,429)	1,069,172

Unaudited Interim Results

Unaudited Condensed Consolidated Cash Flow Statement

	Six months ended	
	30 September	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(22,688)	(24,352)
Net cash used in investing activities	(50,953)	(158,463)
Net cash used in financing activities	(331)	(3,650)
Net decrease in cash and cash equivalents	(73,972)	(186,465)
Cash and cash equivalents at beginning of period	217,007	328,766
Effect of foreign exchange rate changes	1,008	240
Cash and cash equivalents at end of period	144,043	142,541
Analysis of bank balances and cash equivalents		
Bank balances and cash	144,043	142,541

Notes to the Condensed Consolidated Financial Statements

1. General Information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 9 November 2001 and continued in Bermuda on 20 April 2009. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 26 August 2002.

The registered office and principal place of business of the Company are located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and Unit 2111, 21/F., Shun Tak Centre, West Tower, 168-200 Connaught Road Central, Hong Kong respectively.

The unaudited condensed consolidated financial statements ("Unaudited Consolidated Results") are presented in Hong Kong dollars ("HK\$"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand (HK\$'000) except otherwise indicated.

The Company's principal activity is investment holding and the principal activities of its subsidiaries are provision of medical information digitalisation system, property investment, provision of consultancy services, advertisement and media related services and provision of project management services.

Notes to the Condensed Consolidated Financial Statements

2. Basis of Preparation and Consolidation

The Unaudited Consolidated Results have been prepared in accordance with Hong Kong Accounting Standards (“HKASs”) 34 “Interim Financial Reporting” issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the Unaudited Consolidated Results include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) and the Hong Kong Companies Ordinance.

The accounting policies and basis of preparation adopted in the preparation of the Unaudited Consolidated Results are consistent with those adopted in annual financial statements for the year ended 31 March 2011 except for the impact of the adoption of a number of revised HKFRSs issued by HKICPA, which are effective for the financial year beginning on 1 April 2011. The adoption of these new HKFRSs had no material effect on the results of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognized.

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective. The Directors anticipate that the application of the new and revised HKFRSs will have no material impact on the results and financial position of the Group.

The Unaudited Consolidated Results should be read in conjunction with the annual financial statements of the Group for the year ended 31 March 2011.

Notes to the Condensed Consolidated Financial Statements

3. Turnover and Other Income

The principal activities of the Group are the development and provision of medical information digitalization system (“MIDS”), properties investment, provision of consultancy services, advertisement and media related services and provision of project management services.

An analysis of the turnover and other income of the Group during the reporting periods is as follows:

	For the three months ended 30 September		For the six months ended 30 September	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Turnover				
MIDS	482	1,616	1,011	8,034
Gross rentals from investment properties	383	388	796	794
Advertising and media related services	833	–	833	–
Project management services	23	–	23	–
	1,721	2,004	2,663	8,828
Other income				
Bank interest income	226	2	583	4
Other income	–	59	–	209
	226	61	583	213
	1,947	2,065	3,246	9,041

Notes to the Condensed Consolidated Financial Statements

4. Segment Information

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management, for the purposes of resource allocation and performance assessment, the Group has identified five reportable segments as follows:

Properties investments: Leasing of properties to generate rental income. Currently the Group's properties investments portfolio is located in Canada.

MIDS: Provision of RFID system, HIS system and PACS. Currently the Group's MIDS portfolio is located in the PRC.

Consultancy services: Provision of consultancy and advisory services to entities in relation to the rechargeable stored value SIM card business. Currently, the Group's prepaid SIM cards consultancy and advisory services is provided in Hong Kong.

Advertisement and media related services: Provision of advertisement and media related services to entities. Currently, the Group's advertisement and media related services are provided in Hong Kong and the PRC.

Project management services: Provision of project management services to entities in relation to the operation and monitoring of RFID card system. Currently, the Group's project management services are provided in the PRC.

Notes to the Condensed Consolidated Financial Statements

The results of the reportable segments and the reconciliation to the corresponding consolidated totals in the accounts are shown below:

	Properties investments business		MIDS business		Consultancy services		Advertisement and media related services		Project management services		Total	
	For the six months ended 30 Sep 2011	2010	For the six months ended 30 Sep 2011	2010	For the six months ended 30 Sep 2011	2010	For the six months ended 30 Sep 2011	2010	For the six months ended 30 Sep 2011	2010	2010	For the six months ended 30 Sep 2011
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Turnover:												
Sales to external customers	796	8,034	-	-	-	-	833	-	23	-	2,663	8,828
Segment results												
Unallocated other revenue and income	(507)	(41,492)	(8,247)	-	-	833	-	-	(575)	-	(57,887)	(41,910)
Unallocated expenses											566	213
(Loss)/profit from operations											(7,319)	(106,028)
Finance costs											(64,640)	(147,725)
(Loss)/profit before taxation											(9,637)	(25,056)
Tax charged											(74,277)	(172,781)
(Loss)/profit for the period											-	-
											(74,277)	(172,781)
Other information:												
Interest expense	(28)	(63)	-	-	-	-	-	-	-	-	(28)	(35)
Depreciation of property, plant and equipment	9	544	-	339	-	-	-	-	7	-	560	339
Amortization of intangible assets	-	42,468	8,247	37,950	-	-	-	-	-	-	50,715	37,950

Notes to the Condensed Consolidated Financial Statements

5. Finance Costs

	For the three months ended 30 September		For the six months ended 30 September	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Interest on bank loans wholly repayable within five years	13	17	28	35
Effective interest expenses on convertible bonds wholly repayable within five years	4,831	4,857	9,609	9,941
Effective interest expenses on promissory note	-	6,279	-	15,080
	4,844	11,153	9,637	25,056

6. Loss from Operations

Loss from operations has been arrived at after charging/(crediting):

	For the three months ended 30 September		For the six months ended 30 September	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Amortization of intangible assets	25,358	18,039	50,715	37,950
Depreciation of property, plant and equipment	288	183	560	339
Loss arising on early repayment of promissory note	-	13,624	-	100,732
Net foreign exchange loss/(gain)	(449)	66	(1,625)	74
Staff costs including directors' emoluments	4,609	2,086	7,612	3,892

Notes to the Condensed Consolidated Financial Statements

7. Income Tax

- (i) No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits in Hong Kong or the estimated assessable profit was wholly absorbed by tax losses brought forward for the six months ended 30 September 2011 (2010: Nil).
- (ii) No provision for overseas income tax was made as the Company's overseas subsidiaries did not have taxable income for the six months ended 30 September 2011 (2010: Nil).
- (iii) The Group had no significant unprovided deferred tax assets and liabilities at 30 September 2011 (2010: Nil).

8. Loss Per Share

The calculation of the basic loss per share is based on the loss attributable to owners of the Company for the three months ended 30 September 2011 of approximately HK\$39.5 million (2010: HK\$47.4 million) and loss attributable to owners of the Company for the six months ended 30 September 2011 of approximately HK\$74.3 million (2010: HK\$172.8 million) and the weighted average of 231,114,442 shares in issue during the three months ended 30 September 2011 (2010: 50,636,981 shares, as adjusted for share consolidation) and the weighted average of 227,251,391 shares in issue during the six months ended 30 September 2011 (2010: 44,318,864 shares, as adjusted for share consolidation). The comparative figure of basic loss per share for the three months and six months ended 30 September 2011 had been re-calculated to reflect the share consolidation taken place on 1 June 2011.

The diluted loss per share is equal to the basic loss per share as the exercise of share options and conversion of all outstanding convertible bonds would have anti-dilutive effects.

Notes to the Condensed Consolidated Financial Statements

9. Property, Plant and Equipment

	HK\$'000
At 1 April 2011	1,835
Additions	1,954
Depreciation for the period	(560)
At 30 September 2011	3,229

10. Trade Receivables

An aged analysis of the trade receivables is as follows:

	At 30 September 2011 HK\$'000 (Unaudited)	At 31 March 2011 HK\$'000 (Audited)
Within 30 days	9,217	19,421
31 – 90 days	2,196	5,633
Over 90 days	7,794	–
	19,207	25,054

There were no trade debtors that are impaired for the six months ended 30 September 2011.

11. Trade Payables

An aged analysis of the trade payables is as follows:

	At 30 September 2011 HK\$'000 (Unaudited)	At 31 March 2011 HK\$'000 (Audited)
Within 30 days	27	46
31 – 90 days	2,839	5,221
	2,866	5,267

Notes to the Condensed Consolidated Financial Statements

12. Share Capital

	Number of shares	HK\$'000
Authorised:		
At 1 April 2011 and 30 September 2011, ordinary shares of HK\$0.01 each		
	20,000,000,000	200,000
Issued and fully paid:		
At 1 April 2011,		
ordinary shares of HK\$0.01 each	4,466,917,767	44,669
Exercise of share options	13	–
Capital reduction	–	(42,435)
Consolidation of shares	(4,243,571,891)	–
Issue of shares arising on acquisition of subsidiaries	44,669,177	446
At 30 September 2011, ordinary shares of HK\$0.01 each		
	268,015,066	2,680

13. Convertible Bonds

	At 30 September 2011 HK\$'000 (Unaudited)	At 31 March 2011 HK\$'000 (Audited)
Liability component at 1 April	176,720	167,638
Issued during the period	–	99,502
Conversion during the period	–	(110,279)
Interest expense	9,609	19,859
	186,329	176,720

Notes to the Condensed Consolidated Financial Statements

14. Available-for-sale Investments

	At 30 September 2011 HK\$'000 (Unaudited)	At 31 March 2011 HK\$'000 (Audited)
Unlisted shares		
Equity securities incorporated in Hong Kong	1,000	1,000
Listed shares		
Equity securities listed in Hong Kong	9,000	–
	10,000	1,000

Management Discussion and Analysis

Interim Dividend

The Board does not recommend the payment of any dividend for the six months ended 30 September 2011 (2010: Nil).

Business Review

Provision of medical information digitalisation system

In the second half of 2011, the effects of inflations and increase in labour cost and wages are beginning to surface through price spikes in certain specialized electronic and computer components of the MIDS system. In the opinion of local healthcare authority, the price of the RFID modules could be relatively high compared with similar systems which are based on barcodes, and medical institutions should adopt RFID based medical system according to individuals' circumstances. Following the guidance, some hospitals are considering the rate of implementation of RFID modules and alternative means are being sought to fulfill the change in requirement.

On the other hand, medical and healthcare institutions are starting to reinforce the management and procurement process and adopt an enhanced medical equipment management policy published in early 2011. Under the enhanced medical equipment management policy, medical and healthcare institutions have to prepare annual equipment plans and procurement implementation plans to promote the effective, efficient and rational allocation of medical equipment. The new management policy covers medical information systems such as MIDS system and these systems are subject to centralized purchasing with open tender as the preferred way of procurement. The Company's partner is in discussion with hospitals to prepare and submit the required procurement plans and budgets conforming to the new policy, and the pace of rollout have been affected in certain cases.

During the period under review, and subject to the restraints explained above, the revenue contributed by such segment was approximately HK\$1.0 million (2010: HK\$8.0 million), representing a decrease of 87.4% as compared with the period ended 30 September 2010.

Management Discussion and Analysis

Property investment

During the period under review, the revenue contributed by such segment was HK\$0.8 million (2010: HK\$0.8 million) and was mainly derived from the leasing of an investment property located at Canada.

Provision of consultancy services

With the operational alignment with the telecommunication services provider, there will be emphasis on providing mobile data services in the upcoming period. Retail presence is also planned in strategic locations with high concentration of target customers, in time for the year-end holiday spending season and at the same time taking advantage of the release of latest generation of mobile phones.

No revenue was recorded in such segment during the period.

Advertisement and media related services

The Group is continuing to explore opportunities to further enhance the advertisement and media related services business, both in Hong Kong and the PRC.

During the period under review, the revenue contributed by such segment was HK\$0.8 million (2010: Nil) and was mainly derived from provision of advertisement related services in the PRC.

Management Discussion and Analysis

Provision of project management services

On 29 August 2011, the Company's wholly-owned subsidiary entered into a share acquisition agreement and on 2 September 2011 a supplemental agreement with an independent third party pursuant to which the Company shall purchase the entire issued share capital of Easy Ace Limited ("Easy Ace"). The main asset of Easy Ace is the Services Agreement where Easy Ace would provide project management services in relation to the operation and monitoring of the Educational Institution Internal Security Control System ("EIISCS") in Guangdong Province in the PRC. Easy Ace shall receive 70% of the net profit in respect to the operation of EIISCS as service fee. The EIISCS is based on the radio-frequency identification ("RFID") technology and together with cellular mobile phones as information receivers, the EIISCS forms a communication platform between educational institutions and the parents of the students. As the Company continues to seek opportunities in order to secure a stable source of revenue and diversify the earning base, the Directors are of the view that the acquisition is in the interests of the Company and the shareholder as a whole. The transaction was completed on 15 September 2011.

The Group's diversification into the above advertisement and project management services segments has resulted in a revenue amounting to HK\$0.8m (2010: Nil) representing 32.1% of the total revenue for the period.

Termination of JV Agreement

On 18 October 2010, the Company and the PRC Partner entered into the JV Agreement pursuant to which the Company and the PRC Partner agreed to set up the JV Company. On 30 March 2011, the Company and the PRC Partner entered into a Supplemental Agreement to extend the Long Stop Date of the JV Agreement to 30 September 2011. As certain conditions cannot be fulfilled, on 29 September 2011 the Company entered into a deed of termination with the PRC Partner whereby all parties mutually agree to terminate the JV agreement. The Board considers that the termination of JV agreement will not have any material adverse impact on the existing business or financial of the Group.

Management Discussion and Analysis

Financial Review

For the period under review, the revenue of the Group for the six months ended 30 September 2011 was approximately HK\$2.7 million (2010: HK\$8.8 million), of which HK\$1.0 million (2010: HK\$8.0 million) was generated from MIDS; HK\$0.8 million (2010: Nil) was generated from advertising and media services; HK\$0.8 million (2010: HK\$0.8 million) was generated from the leasing of an investment property located at Canada, representing a decrease of approximately 69.8% as compared with the period ended 30 September 2010.

Loss attributable to owners of the Company for the six months ended 30 September 2011 amounted to approximately HK\$74.3 million (2010: HK\$172.8 million). The decrease in loss was mainly attributed to a significant decrease in financial costs and an increase in administration expenses as explained below.

Finance costs decreased by 61.5% to approximately HK\$9.6 million (2010: HK\$25.1 million). The decrease was mainly attributed to the full repayment of promissory note and reduction in the liability portion of convertible bonds issued by the Company.

Administration expenses increased 38.2% to approximately HK\$67.9 million from HK\$49.1 million in the prior year. Such increase was mainly attributed to the amortization expenses of intangible assets approximately HK\$50.7 million (2010: HK\$38.0 million) and increase in salaries and allowances and share option of approximately HK\$7.6 million (2010: HK\$3.9 million).

Management Discussion and Analysis

Future Plans

On 26 October 2011, the Company, Growth Harvest Limited (the “Vendor”) and Kingston Securities Limited (the “Placing Agent”) entered into a top-up placing and subscription agreement, pursuant to which, the Placing Agent have conditionally agreed, on a best effort basis, for and on behalf of the Vendor, to place to not less than six independent placees, up to 30,000,000 top-up placing Shares beneficially owned by the Vendor at a top-up placing price of HK\$0.257 per top-up placing share; and the Vendor has conditionally agreed to subscribe for such number of subscription shares as is equal to the number of top-up placing shares successfully placed by the Placing Agent at a subscription price of HK\$0.257 per subscription share. On the same day, the Company has also entered into the first tranche placing agreement with the Placing Agent, pursuant to which, the Placing Agent has conditionally agreed to place, for and on behalf of the Company, up to 23,600,000 first tranche placing shares on a best effort basis, not less than six independent placees, at a first tranche placing price of HK\$0.257 per first tranche placing share.

If all the top-up placing shares and the first tranche placing shares are fully placed the gross proceeds and the net proceeds from top-up placing and first tranche placing will be approximately HK\$13.8 million and approximately HK\$13.2 million respectively. All new Shares to be issued under top-up placing, the subscription and first tranche placing is and will be issued pursuant to general mandate granted to the Directors by resolution of the shareholders passed at the Company’s annual general meeting held on 26 September 2011. The top-up placing and subscription was completed 7 November 2011.

On 26 October 2011, the Company also entered into the second tranche placing agreement with the Placing Agent, pursuant to which, the Placing Agent has conditionally agreed, on a best effort basis, for and on behalf of the Company, to place to not less than six independent Placees up to 53,600,000 second tranche placing shares at a second tranche placing price of HK\$0.257 per second tranche placing share. If all the second tranche placing shares are fully placed, the gross proceeds and the net proceeds from the second tranche placing will be approximately HK\$13.8 million and approximately HK\$13.1 million respectively. The second tranche placing shares will be allotted and issued pursuant to a specific mandate to be obtained at the special general meeting of the Company to be convened.

While there are uncertainties over the economic and financial conditions around the global markets, the management is optimistic about the PRC’s business prospects in the foreseeable future and will continue to monitor the performance of the existing business. At the same time, the Group will also seek opportunities for a stable source of revenue and enhance the earning base of the Group.

Management Discussion and Analysis

Liquidity and Financial Resources

At 30 September 2011, the Group had total assets of approximately HK\$1,265.8 million (31 March 2011: HK\$1,332.4 million), including cash and bank balances of approximately HK\$144.0 million (31 March 2011: HK\$217.0 million). During the period under review, the Group financed its operation with internally generated cash flow.

Capital Structure

Save as disclosed below, there was no change with capital structure of the Group as at 30 September 2011 as compared with that at 31 March 2011.

Capital Reorganisation and Change of Board Lot Size

Pursuant to the resolutions passed on 31 May 2011, a capital reorganisation (the “Capital Reorganisation”) has been effected by way of comprising (i) share consolidation that every twenty shares of HK\$0.01 each in the issued share capital of the Company be consolidated into one consolidated share of HK\$0.10 each (“Consolidated Share”); and (ii) capital reduction that the par value of all issued Consolidated Shares from HK\$0.20 each to HK\$0.01 each by cancelling the paid-up capital to the extent of HK\$0.19 on each issued Consolidated Share (“Adjusted Shares”) and the credit arising from the reduction of issued share capital of the Company be transferred to the contributed surplus account of the Company and be applied to offset against the accumulated losses to the extent as permitted by the laws of Bermuda and the Bye-laws. The board lot size for trading was changed to 20,000 Adjusted Shares after the Capital Reorganisation became effective. The Capital Reorganisation became effective on 1 June 2011.

Issue of shares arising on acquisition of subsidiaries

On 29 August 2011, the Company entered into a share acquisition agreement, and subsequently on 2 September 2011 entered into a supplemental agreement, pursuant to which the Company agreed to acquire from the vendor the sale shares at a consideration of HK\$8.6 million. The consideration shall be satisfied by the Company issuing 44,669,177 new ordinary shares at issue price of HK\$0.170 per new ordinary share under the general mandate. The new ordinary shares were issued upon completion on 15 September 2011.

Management Discussion and Analysis

Gearing Ratio

The gearing ratio, expressed as percentage of total liabilities over total assets, was 15.5% (2010: 24.1%). The improvement in gearing ratio was contributed by the decrease in total liabilities was substantially more than that of total assets during the period.

Charge on the Group's Assets

At 30 September 2011, the Group did not have any charge on its assets.

Foreign exchange risks

The Group has not used any foreign currency derivative instruments to hedge its exposure to foreign exchange risk. However, the management monitors closely the exposures and will consider hedging the exposures should the need arise.

Commitments

At 30 September 2011, the Group, as a lessor, had operating lease commitments of approximately HK\$1.6 million (2010: HK\$1.6 million) and as a lessee, had operating lease commitment of approximately HK\$1.2 million (2010: HK\$4.1 million).

Contingent Liabilities

At 30 September 2011, the Group had no contingent liabilities (2010: Nil).

Material Acquisitions and Disposal of Subsidiaries and Affiliated Companies

Save as the acquisition disclosed in the “Management Discussion and Analysis” section, the Group had no other material acquisitions and disposal of subsidiaries and affiliated companies during the period under review.

Management Discussion and Analysis

Employees

At 30 September 2011, the Group had 28 employees (2010: 27). Their remuneration, promotion and salary review are assessed based on job responsibilities, work performance, professional experiences and the prevailing industry practices. The employees in Hong Kong joined the mandatory provident fund scheme. Other benefits include share options granted or to be granted under the share option scheme.

Significant Investment

At 30 September 2011, as long-term investment, the Group held 100,000,000 shares of The Hong Kong Building and Loan Agency Limited, a company incorporated in Hong Kong with limited liability and the issued shares of which are listed on the Main Board of the Stock Exchange of Hong Kong.

Save as disclosed above, the Group did not hold any significant investment during the period ended 30 September 2011.

Other Information

Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debenture and its Associated Corporations

At 30 September 2011, the interests and short position of the directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO); or which are required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Rule 5.46 of the GEM Listing Rules, are as follows:

Long positions in ordinary shares of HK\$0.01 each of the Company

Name of director	Interest in underlying shares	Percentage of the Company's issued share capital
Mr. Lien Wai Hung	1,593,250 (Note 1)	0.59%

Note:

1. Mr. Lien Wai Hung, an executive director is deemed to be interested in 1,593,250 shares which fall to be issued upon exercise of the 1,593,250 share options of the Company.

Share Option Scheme

The Company adopted two share option schemes on 2 August 2002, namely, the pre-IPO share option scheme ("Pre-IPO Share Option Scheme") and the share option scheme ("Share Option Scheme"). The principal terms of the two share option schemes have been set out in the note 42 to the financial statements as included in the annual report of the Company for the year ended 31 March 2011.

Other Information

Details of the Company's share options granted under the Share Option Scheme are as follows:

Date of grant	Category of eligible persons	Exercise price	Exercise period	Outstanding at 1/4/2011	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Outstanding at 30/9/2011
28/04/2008	Directors	HK\$1,948.00 (Note 1)	28/04/2008 to 27/04/2011	1,313	-	-	(1,313)	-	-
	Consultants	HK\$1,948.00 (Note 1)	28/04/2008 to 27/04/2011	2,746	-	-	(2,746)	-	-
	Employees	HK\$1,948.00 (Note 1)	28/04/2008 to 27/04/2011	541	-	-	(541)	-	-
29/12/2010	Director	HK\$2.28 (Note 1)	29/12/2010 to 28/12/2011	1,593,250	-	-	-	-	1,593,250
	Consultant	HK\$2.28 (Note 1)	29/12/2010 to 28/12/2011	1,593,250	-	-	-	(1,593,250)	-
	Employee	HK\$2.28 (Note 1)	29/12/2010 to 28/12/2011	1,559,750	-	(1)	-	-	1,559,749
20/09/2011	Employees	HK\$0.212	20/09/2011 to 19/09/2012	22,320,000	-	-	-	-	22,320,000
				27,070,850	-	(1)	(4,600)	(1,593,250)	25,472,999

Note:

- The exercise price and numbers of options have been adjusted due to completion of capital reorganisation on 1 June 2011.

Other Information

Directors and Chief Executives' Rights to Acquire Shares or Debentures

Save as disclosed above, at 30 September 2011, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate, and none of the directors and chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

Substantial Shareholders

At 30 September 2011, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Long positions in ordinary shares of HK\$0.01 each of the Company

Name of shareholder	Capacity	Interest in shares	Interest in underlying shares	Total interest in shares	Percentage of the Company's issued share capital
Growth Harvest Limited	Beneficial owner (Note 1)	64,640,710	67,567,567	132,208,277	49.33%
Treasure Bonus Limited	Interest of controlled Corporation (Note 1)	64,640,710	67,567,567	132,208,277	49.33%
Ms. Tan Ting Ting	Interest of controlled Corporation (Note 1)	64,640,710	67,567,567	132,208,277	49.33%
Gold Train Limited	Beneficial owner (Note 2)	44,669,177	-	44,669,177	16.67%
Ms. Xie Shi Yan	Interest of controlled Corporation (Note 2)	44,669,177	-	44,669,177	16.67%

Other Information

Note:

1. Growth Harvest Limited (“Growth Harvest”) is deemed to be interested in 67,567,567 shares through its interest in the convertible bonds in the principal amount of HK\$500,000,000 issued by the Company. Adding the 64,640,710 shares held by Growth Harvest, Growth Harvest is deemed to be interested in 132,208,277 shares of the Company. Treasure Bonus Limited (“Treasure Bonus”) owns 72% of the issued share capital of Growth Harvest and Treasure Bonus are wholly and beneficially owned by Ms. Tan Ting Ting. Each of Treasure Bonus and Ms. Tan Ting Ting is deemed to be interested in the 132,208,277 shares.
2. Gold Train Limited is wholly and beneficially owned by Ms. Xie Shi Yan. Ms. Xie Shi Yan is deemed to be interested in the 44,669,177 shares.

Save as disclosed above, at 30 September 2011, the Company has not been notified of any persons (other than the Directors or chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which were to be recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

Competing Interest

At 30 September 2011, none of the directors, management shareholders and substantial shareholders, or their respective associates had any interests in any business which competes or may compete with the business of the Group pursuant to Rule 11.04 of the GEM Listing Rules.

Purchase, Sale or Redemption of Listed Securities of the Company

The Company has not redeemed any of its listed securities during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s listed securities during the six months ended 30 September 2011.

Other Information

Corporate Governance

Save as disclosed below, the Company complied with Code of Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules for the six months ended 30 September 2011.

- a. Under the Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of the chairman and chief executive officer of the Company have been performed by Mr. Lien Wai Hung, who is also an executive director. The Board considered that the non-segregation would not result in considerable concentration of power in one person and has the advantage of a strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently. The Board will review the effectiveness of this arrangement from time to time and will consider appointing an individual as the chief executive officer of the Company when it thinks appropriate.
- b. Under the Code provision A.4.1, all the non-executive directors should be appointed for a specific term, subject to re-election. The term of office for non-executive directors is subject to retirement from office by rotation and is eligible for re-election in accordance with the provisions of the Company's bye-laws. At each annual general meeting, one-third of the directors for the time being, (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. As such, the Company considers that such provisions are sufficient to meet the underlying objective of this code provision.

Code of Conduct Regarding Securities Transactions by Directors

During the six months ended 30 September 2011, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries of all Directors, all the Directors confirmed they have complied with the required standards of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company.

Other Information

Audit Committee

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee comprised the three independent non-executive directors namely, Mr. Leung Wai Man, Mr. Ho Chun Ki, Frederick and Lai Miao Yuan. The audit committee has reviewed the Group's unaudited consolidated financial statements for the six months ended 30 September 2011.

Board of Directors

At the date of this report, the executive director is Mr. Lien Wai Hung; the independent non-executive directors are Mr. Leung Wai Man, Mr. Ho Chun Ki, Frederick and Lai Miao Yuan.

By Order of the Board
Zhi Cheng Holdings Limited
Lien Wai Hung
Chairman

Hong Kong, 14 November 2011