



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)

First Quarterly Report 2012



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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Given the emerging nature of companies listed on GEM, 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.

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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.

UNAUDITED QUARTERLY 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 three months ended 30 June 2012, together with the comparative unaudited figures for the corresponding period in 2011 as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 30 June	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Turnover	3	8,890	942
Cost of sales		(6,212)	–
Gross profit		2,678	942
Other income	3	146	357
Administrative expenses		(26,288)	(31,307)
Loss from operations	4	(23,464)	(30,008)
Finance costs	5	(6,272)	(4,793)
Loss before taxation		(29,736)	(34,801)
Income tax	6	–	–
		(29,736)	(34,801)
(Loss)/profit attributable to:			
Owners of the Company		(29,960)	(34,801)
Non-controlling interests		224	–
		(29,736)	(34,801)
Loss per share	7	HK cents	HK cents
– Basic and diluted		9.32	15.58

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE (LOSS)/INCOME

	For the three months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Loss for the period	(29,736)	(34,801)
Other comprehensive (expense)/income for the period		
Exchange differences on translation of financial statements of foreign operations	(1,339)	325
Fair value changes on available-for-sale investments	(3,000)	–
Total comprehensive expense for the period	(34,075)	(34,476)
Total comprehensive (expense)/income attributable to:		
Owners of the Company	(34,299)	(34,476)
Non-controlling interests	224	–
	(34,075)	(34,476)

NOTES

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 Suite 2012, 20th Floor, Tower One, Times Square, 1 Matheson Street, Causeway Bay, 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 digitalization system, property investment, provision of consultancy services, advertisement and media related services and provision of project management services.

2. BASIS OF PREPARATION AND CONSOLIDATION

The unaudited condensed consolidated income statement and unaudited condensed consolidated statement of comprehensive income (the "Unaudited Consolidated Results") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") and the 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 Unaudited Consolidated Results should be read in conjunction with the annual financial statements of the Group for the year ended 31 March 2012.

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 2012 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 2012. 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 have been prepared under the historical cost convention. The Unaudited Consolidated Results is presented in Hong Kong Dollars ("HK\$") which is also the functional currency of the Company and all value rounded to the nearest thousands (HK\$000) unless otherwise stated.

3. TURNOVER AND OTHER INCOME

The principal activities of the Group are provision of medical information digitalization system ("MIDS"), property 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 are as follows:

	For the three months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Turnover		
MIDS	2,769	529
Gross rental from investment properties	480	413
Consultancy services	244	–
Advertising and media related services	5,096	–
Project management services	301	–
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Total	8,890	942
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Other income		
Bank interest income	120	357
Interest income on loan to an independent third party	26	–
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	146	357
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4. LOSS FROM OPERATIONS

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

	For the three months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Amortization of intangible assets	16,419	25,357
Depreciation of property, plant and equipment	284	272
Net foreign exchange loss/(gain)	154	(1,176)
Staff costs including directors' emoluments	4,142	3,003
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5. FINANCE COSTS

	For the three months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Interest on bank loans wholly repayable within five years	10	15
Effective interest expenses on convertible bonds repayable over five years	6,262	4,778
	6,272	4,793

6. 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 three months ended 30 June 2012 (2011: Nil).
- (ii) No provision for overseas income tax was made as the Company's overseas subsidiaries did not have taxable income for the three months ended 30 June 2012 (2011: Nil).
- (iii) The Group had no significant unprovided deferred tax assets and liabilities at 30 June 2012 (2011: Nil).

7. 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 June 2012 of approximately HK\$30.0 million (2011: HK\$34.8 million) and the weighted average of 321,615,066 shares in issue during the three months ended 30 June 2012 (2011: 223,345,888 shares, as adjusted for share consolidation). The comparative figure of basic loss per share for the three months ended 30 June 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.

8. CHANGES IN EQUITY

	Issued capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Available-for-sale investments revaluation reserve (Unaudited) HK\$'000	Share-based compensation reserve (Unaudited) HK\$'000	Convertible bonds reserve (Unaudited) HK\$'000	Statutory reserves (Unaudited) HK\$'000	Translation reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Attributable to owners of the company (Unaudited) HK\$'000	Non-controlling interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2011	44,669	1,186,043	283,362	-	6,125	351,687	384	2,620	(733,780)	1,141,120	-	1,141,120
Comprehensive (expense)/income for the period	-	-	-	-	-	-	-	-	(34,801)	(34,801)	-	(34,801)
Other comprehensive (expense)/income for the period	-	-	-	-	-	-	-	325	-	325	-	325
Total comprehensive (expense)/income for the period	-	-	-	-	-	-	-	325	(34,801)	(34,476)	-	(34,476)
Capital reduction	(42,436)	-	42,436	-	(3,498)	-	-	-	-	-	-	-
Lapsed of share options	-	-	-	-	-	-	-	-	3,498	-	-	-
At 30 June 2011	2,233	1,186,043	325,798	-	2,627	351,687	384	2,945	(765,083)	1,106,644	-	1,106,644
At 1 April 2012	3,216	1,207,308	325,798	(10,000)	991	351,687	402	5,386	(1,211,879)	672,919	-	672,919
Comprehensive (expense)/income for the period	-	-	-	(3,000)	-	-	-	-	(29,960)	(29,960)	224	(29,736)
Other comprehensive (expense)/income for the period	-	-	-	(3,000)	-	-	-	(1,339)	-	(4,339)	-	(4,339)
Total comprehensive (expense)/income for the period	-	-	-	(3,000)	-	-	-	(1,339)	(29,960)	(34,299)	224	(34,075)
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	8,960	8,960
At 30 June 2012	3,216	1,207,308	325,798	(13,000)	991	351,687	402	4,057	(1,241,839)	638,620	9,184	647,804

MANAGEMENT DISCUSSION AND ANALYSIS

Dividend

The Board does not recommend the payment of any dividend for the three months ended 30 June 2012 (2011: Nil).

Business Review

Provision of medical information digitalisation system

In the light of the medical reform policy planning and program implementation on healthcare information technology to accelerate the digitalization of medical and healthcare information, in particular the utilization of cloud computing and other advance technologies to standardize construction of electronic health records and electronic medical records, the Group will continue to cooperate and partner with PRC entities with expertise in those areas for business development.

During the period under review, the revenue contributed by such segment was approximately HK\$2.8 million (2011: HK\$0.5 million).

Property investment

During the period under review, the revenue contributed by such segment was HK\$0.5 million (2011: HK\$0.4 million) and was mainly derived from the leasing of an investment property located at Canada.

Provision of consultancy services

The rechargeable stored value SIM card business continues to pick up in volume and new areas of the pre-paid SIM market is being explored as more telecommunication providers are starting to provide the next generation of technology and handsets via the new 4G networks.

During the period under review, the revenue contributed by such segment was HK\$0.2 million (2011: HK\$Nil).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Business Review *(Continued)*

Advertisement and media related services

For the advertisement platform in retail-chain shops, the next wave of tiered promotion packages with creative elements are being prepared to serve fast-moving consumer-goods clients and additional advertising clients are expected in the second half of 2012. On the other hand, marketing campaigns for the travel books are under full speed preparation where both traditional and new media are utilized, and the forthcoming target launch is set before the long public holidays where travellers would purchase the travel books for their overseas visits.

On 3 May 2012, a wholly-owned subsidiary of the Company entered into an agreement with an independent third party for the acquisition of Joint Vision Investments Limited which will control a PRC company 上海思璇廣告有限公司 (Shanghai Si Xuan Advertisement Company Limited*) through a set of control agreements. The PRC company has signed several cooperation and advertising memoranda of understanding with several travel agents in the PRC pursuant to which the travel agents will recommend the travel books to individual and corporate customers in the PRC and will subscribe the travel books as promotional items and gifts for their respective customers. The travel books will be a series of travel guide books aimed to provide destination data on sightseeing attractions, restaurants, shopping locations, accommodation and transportation information and also recommended travel routes. The cooperation period between the PRC company and the travel agents will be for a term of 3 years and the travel books are planned to be launched in areas with concentration of potential outbound tourists and the affluent high spending group. Advertisement placement is also planned within the travel books, thus providing advertising incomes, extends the available advertising media tentacles and creating synergy effects for the Company's existing advertising and media business.

During the period under review, the revenue contributed by such segment was HK\$5.1 million (2011: HK\$Nil).

Provision of Project Management Services

The Educational Institution Internal Security Control System ("EIISCS") has been installed and operational in the second batch of 23 schools in various Guangzhou locations, and the service fee is contributing revenue to the segment. The overall utility rate is improving moderately and it is expected the EIISCS project would produce more satisfactory results after the summer holidays through better utilization of the available technical and commercial resources.

During the period under review, the revenue contributed by such segment was HK\$0.3 million (2011: HK\$Nil).

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review

For the period under review, the revenue of the Group for the three months ended 30 June 2012 was approximately HK\$8.9 million (2011: HK\$0.9 million), of which HK\$2.8 million (2011: HK\$0.5 million) was generated from the rollout of MIDS; HK\$0.5 million (2011: HK\$0.4 million) was generated from the leasing of an investment property located at Canada; HK\$5.1 million was generated from provision of advertising and media related services (2011: HK\$Nil); HK\$0.2 million was generated from provision of consultancy services (2011:HK\$Nil); and HK\$0.3 million (2011: HK\$Nil) was generated from the provision of project management services, tantamount to an increase of approximately 8.4 times as compared with the period ended 30 June 2011.

Loss attributable to owners of the Company for the three months ended 30 June 2012 amounted to approximately HK\$30.0 million (2011: HK\$34.8 million). The decrease in loss was mainly attributed to an increase in finance costs but counter-balanced by a decrease in administrative expenses as explained below.

Finance costs increased by 31% to approximately HK\$6.3 million (2011: HK\$4.8 million). The increase was mainly attributed to the increase in the liability portion of convertible bonds issued by the Company.

Administrative expenses decreased 16% to approximately HK\$26.3 million from HK\$31.3 million in the prior year. Such decrease was mainly attributed to the decrease in amortization expenses of intangible assets approximately HK\$16.4 million (2011: HK\$25.4 million) and an increase in staff costs of approximately HK\$4.1 million (2011: HK\$3.0 million).

On 26 October 2011, the Company and Kingston Securities Limited (the "Placing Agent") entered into the second tranche placing agreement, 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 places up to 53,600,000 second tranche placing shares at a second tranche placing price of HK\$0.257 per second tranche placing share. As certain conditions could not be fulfilled as at the long stop date, the second tranche placing agreement lapsed on 30 June 2012 and the second tranche placing did not proceed.

Future Plans

Even with the signs that the global economic growth may be stalling and the Eurozone crisis may take a little while to resolve, Asia's declining inflation allows more easing effects with stimulus to boost domestic demand. Planning ahead, the Group will continue to develop its existing business segments for stable incomes and continue to explore potential business opportunities to enhance the earning base of the Group.

OTHER INFORMATION

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

Long positions in the shares of the associated corporations of the Company

Mr. Lui Wing Fong, Alexander, in his capacity as a beneficial owner had, as at 30 June 2012, personal interests in 80 ordinary shares, representing approximately 40% of the then issued share capital in Keen Renown Limited.

Save as disclosed above, as at 30 June 2012, none of the directors, or chief executive of the Company and their associates had any interests or short positions 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 would have to be 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 were required to be recorded in the register required to be kept under 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.

Share Option Schemes

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 note 39 to the financial statements as included in the annual report of the Company for the year ended 31 March 2012.

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 1/4/2012	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Outstanding at 30/6/2012
20/09/2011	Employees	HK\$0.212	20/09/2011 to 19/09/2012	19,840,000	-	-	-	-	19,840,000

Directors and Chief Executives' Rights to Acquire Shares or Debentures

Save as disclosed above, at 30 June 2012, 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.

OTHER INFORMATION *(Continued)***Substantial Shareholders**

At 30 June 2012, 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 position 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 <i>(Note 1)</i>	64,640,710	67,567,567	132,208,277	41.11%
Treasure Bonus Limited	Interest of controlled corporation <i>(Note 1)</i>	64,640,710	67,567,567	132,208,277	41.11%
Ms. Tan Ting Ting	Interest of controlled corporation <i>(Note 1)</i>	64,640,710	67,567,567	132,208,277	41.11%
Gold Train Limited	Beneficial owner <i>(Note 2)</i>	44,669,177	–	44,669,177	13.89%
Ms. Xie Shi Yan	Interest of controlled corporation <i>(Note 2)</i>	44,669,177	–	44,669,177	13.89%

Notes:

- (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. 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 ("Gold Train") 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 June 2012, 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.

OTHER INFORMATION *(Continued)*

Competing Interest

At 30 June 2012, 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 three months ended 30 June 2012.

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 three months ended 30 June 2012.

- 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 has reviewed the effectiveness of this arrangement and appointed Mr. Lui Wing Fong, Alexander as the chief executive officer of the Company on 30 May 2012.
- 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.

OTHER INFORMATION *(Continued)***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 four independent non-executive directors namely, Mr. Ho Chun Ki, Frederick, Mr. Lai Miao Yuan, Mr. Chong Yiu Kan, Sherman and Mr. Tam Kin Yip. The audit committee has reviewed the Group's unaudited consolidated financial statements for the three months ended 30 June 2012.

Board of Directors

At the date of this report, the executive directors are Mr. Lien Wai Hung and Mr. Lui Wing Fong, Alexander; the independent non-executive directors are Mr. Ho Chun Ki, Frederick, Mr. Lai Miao Yuan, Mr. Chong Yiu Kan, Sherman and Mr. Tam Kin Yip.

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

Hong Kong, 14 August 2012

The English transliteration of Chinese is included for information only, and should not be regarded as the official English names of such Chinese names.