



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)

* For identification only

Interim Report

2018

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

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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 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 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 INTERIM RESULTS

The board of Directors (the “Board”) of Zhi Cheng Holdings Limited (the “Company”) presents the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 September 2018, together with the unaudited comparative figures for the six months ended 30 September 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the three months ended 30 September		For the six months ended 30 September	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Revenue	5	30,736	29,673	48,762	38,064
Cost of sales		(24,958)	(21,417)	(41,310)	(27,626)
Gross profit		5,778	8,256	7,452	10,438
Other income and gains	6	1,363	620	1,555	3,025
Administrative expenses		(8,662)	(21,851)	(19,573)	(42,785)
Loss on disposal of property, plant and equipment		-	-	(97)	(159)
Gain on disposal of financial assets at fair value through profit and loss		-	-	1	-
Gain/(loss) arising on change in fair value of financial assets at fair value through profit or loss		-	64	-	(661)
Loss from operations	7	(1,521)	(12,911)	(10,662)	(30,142)
Finance costs	8	(1,208)	(1,538)	(1,979)	(3,045)
Loss before taxation		(2,729)	(14,449)	(12,641)	(33,187)
Income tax credit/(expense)	9	18	101	(13)	87
Loss for the period		(2,711)	(14,348)	(12,654)	(33,100)
Profit/(loss) for the period attributable to:					
owners of the Company		(2,311)	(16,463)	(11,823)	(35,185)
non-controlling interests		(400)	2,115	(831)	2,085
		(2,711)	(14,348)	(12,654)	(33,100)
Loss per share					
Basic and diluted	10	HK Cents (0.07)	HK Cents (0.59)	HK Cents (0.36)	HK Cents (1.26)

	For the three months ended 30 September		For the six months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Loss for the period	(2,711)	(14,348)	(12,654)	(33,100)
Other comprehensive income/(expense) for the period				
Exchange differences on translation of financial statements of overseas subsidiaries	<u>12,675</u>	<u>8,269</u>	<u>(27,633)</u>	<u>11,188</u>
Other comprehensive income/(expense) for the period	<u>12,675</u>	<u>8,269</u>	<u>(27,633)</u>	<u>11,188</u>
Total comprehensive income/(expense) for the period	<u>9,964</u>	<u>(6,079)</u>	<u>(40,287)</u>	<u>(21,912)</u>
Total comprehensive income/(expense) for the period attributable to:				
owners of the Company	<u>12,970</u>	<u>(9,208)</u>	<u>(35,347)</u>	<u>(25,208)</u>
non-controlling interests	<u>(3,006)</u>	<u>3,129</u>	<u>(4,940)</u>	<u>3,296</u>
	<u>9,964</u>	<u>(6,079)</u>	<u>(40,287)</u>	<u>(21,912)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 September 2018	At 31 March 2018
	Notes	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	6,248	7,728
Goodwill		17,221	17,221
Available-for-sale financial assets		200	200
Deposit for acquisition of intangible assets		4,703	–
		<u>28,372</u>	<u>25,149</u>
Current assets			
Trade and other receivables and deposits	12	352,329	336,243
Deposit for film production		152,483	191,286
Deposit for purchase of film rights		36,838	40,426
Finance lease receivables – net	13	5,755	6,315
Financial assets at fair value through profit or loss		2	2
Bank balances and cash		35,123	16,404
		<u>582,530</u>	<u>590,676</u>
Current liabilities			
Trade and other payables	14	107,777	78,278
Other borrowings	15	26,903	20,688
Obligation under finance leases		729	399
Tax payable		5,942	5,606
		<u>141,351</u>	<u>104,971</u>
Net current assets		<u>441,179</u>	<u>485,705</u>
Total assets less current liabilities		<u>469,551</u>	<u>510,854</u>

		At 30 September 2018 HK\$'000 (Unaudited)	At 31 March 2018 HK\$'000 (Audited)
	<i>Notes</i>		
Capital and reserves			
Share capital	16	32,409	32,409
Reserves		416,927	452,274
		<hr/>	<hr/>
Equity attributable to owners of the Company		449,336	484,683
Non-controlling interests		13,376	18,316
		<hr/>	<hr/>
		462,712	502,999
		<hr/>	<hr/>
Non-current liabilities			
Other borrowings	15	6,839	7,505
Obligation under finance leases		–	350
		<hr/>	<hr/>
		6,839	7,855
		<hr/>	<hr/>
		469,551	510,854
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to equity shareholders of the Company

	Share-based				Statutory reserve HK\$'000 (Unaudited)	Translation reserve HK\$'000 (Unaudited)		Accumulated losses HK\$'000 (Unaudited)	Total		Non- controlling interests HK\$'000 (Unaudited)	Total equity HK\$'000 (Unaudited)
	Issued capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Contributed surplus HK\$'000 (Unaudited)	Compensation reserve HK\$'000 (Unaudited)		Share reserve HK\$'000 (Unaudited)	Reserve HK\$'000 (Unaudited)		Reserve HK\$'000 (Unaudited)	Reserve HK\$'000 (Unaudited)		
At 1 April 2017	27,773	1,685,889	325,798	15,635	1,318	(2,597)	(1,636,564)	417,252	5,033	422,285		
(Loss)/profit for the period	-	-	-	-	-	-	(35,185)	(35,185)	2,085	(33,100)		
Other comprehensive income for the period	-	-	-	-	-	9,977	-	9,977	1,211	11,188		
Total comprehensive income/(expense) for the period	-	-	-	-	-	9,977	(35,185)	(25,208)	3,296	(21,912)		
Lapse of share options	-	-	-	(2,306)	-	-	2,306	-	-	-		
Exercise of share options	136	7,247	-	(2,306)	-	-	-	5,077	-	5,077		
At 30 September 2017	27,909	1,683,136	325,798	11,023	1,318	7,380	(1,669,443)	397,121	8,329	405,450		
At 1 April 2018	32,409	1,770,215	325,798	11,023	1,318	38,217	(1,694,297)	484,683	18,316	502,999		
Loss for the period	-	-	-	-	-	-	(11,823)	(11,823)	(831)	(12,654)		
Other comprehensive expense for the period	-	-	-	-	-	(23,524)	-	(23,524)	(4,109)	(27,633)		
Total comprehensive expense for the period	-	-	-	-	-	(23,524)	(11,823)	(35,347)	(4,940)	(40,287)		
Cancellation of share options	-	-	-	(11,023)	-	-	11,023	-	-	-		
At 30 September 2018	32,409	1,770,215	325,798	-	1,318	14,693	(1,695,097)	449,336	13,376	462,712		

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended	
	30 September	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Operating activities		
Cash generated from/(used in) operations	12,593	(14,904)
Tax refunded	800	87
	<u>13,393</u>	<u>(14,817)</u>
Investing activities		
Other cash flows arising from investing activities	1,270	236
	<u>1,270</u>	<u>236</u>
Financing activities		
Proceeds from other borrowings	7,000	20,150
Repayment of other borrowings	(1,451)	(11,117)
Exercise of share options	-	5,077
Other cash flows used in financing activities	(1,649)	(6,664)
	<u>3,900</u>	<u>7,446</u>
Net increase/(decrease) in cash and cash equivalents	18,563	(7,135)
Cash and cash equivalents at beginning of period	16,404	13,310
Effect of foreign exchange rate changes	156	205
	<u>35,123</u>	<u>6,380</u>
Cash and cash equivalents at end of period	35,123	6,380
Analysis of cash and cash equivalents		
Cash and cash equivalents of the Group	<u>35,123</u>	<u>6,380</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Zhi Cheng Holdings Limited (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 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 19/F, Prosperity Tower, No. 39 Queen’s Road Central, Central, Hong Kong respectively.

The condensed consolidated financial statements 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. The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in advertising and media related services and financial leasing and other financial services.

2. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 September 2018 has been prepared in accordance with the Hong Kong Accounting Standards 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants, and applicable disclosure requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statement, and should be read in conjunction with those of the annual report for the year ended 31 March 2018.

The condensed consolidated financial statements for the six months ended 30 September 2018 have not been audited by the Company’s auditors, but have been reviewed by the Company’s audit committee.

3. ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the condensed consolidated financial statements for the six months ended 30 September 2018 are consistent with those followed in the preparation of the annual consolidated financial statements for the year ended 31 March 2018, except for the adoption of new standards and interpretations effective as of 1 April 2018. The adoption of the new standards and amendments does not have a material impact on the accounting policies of the Group, and the amounts reported for the current period and prior periods. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4. SEGMENT INFORMATION

The Group manages its businesses by divisions which are organised by a mixture of both business lines (products and services) and geography. 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 presented the following five reportable segments. No operating segments have been aggregated to form the following reportable segments.

- | | | |
|------|---|---|
| (i) | Advertising and media related services: | Engaged in designing, production, acting as agency and placement of advertisements, information consulting and marketing planning in the PRC. |
| (ii) | Financial leasing and other financial services: | Provision of financial leasing and other financial services in the PRC. |

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment:

	Advertising and media related services		Financial leasing and other financial services		Total	
	For the six months ended 30 September		For the six months ended 30 September		For the six months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Revenue:						
Sales to external customers	45,955	36,239	2,807	1,825	48,762	38,064
Segment results	1,333	5,230	(5,489)	(19,823)	(4,156)	(14,593)
Unallocated other income and gains					-	1,108
Unallocated expenses					(6,506)	(16,657)
Loss from operations					(10,662)	(30,142)
Finance costs					(1,979)	(3,045)
Loss before taxation					(12,641)	(33,187)
Income tax (expense)/credit					(13)	87
Loss for the period					(12,654)	(33,100)

4. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments:

	Advertising and media related services		Financial leasing and other financial services		Total	
	At 30 September 2018 HK\$'000 (Unaudited)	At 31 March 2018 HK\$'000 (Audited)	At 30 September 2018 HK\$'000 (Unaudited)	At 31 March 2018 HK\$'000 (Audited)	At 30 September 2018 HK\$'000 (Unaudited)	At 31 March 2018 HK\$'000 (Audited)
Segment assets	187,932	382,798	197,808	165,979	385,740	548,777
Unallocated assets					225,162	67,048
Total assets					610,902	615,825
Segment liabilities	56,318	38,729	44,950	24,001	101,268	62,730
Unallocated liabilities					46,922	50,096
Total liabilities					148,190	112,826

Other segment information

	Advertising and media related services		Financial leasing and other financial services		Total	
	For the six months ended 30 September 2018 HK\$'000 (Unaudited)		For the six months ended 30 September 2017 HK\$'000 (Unaudited)		For the six months ended 30 September 2018 HK\$'000 (Unaudited)	
Addition to non-current assets	4,703	-	-	6	4,703	6
Depreciation of property, plant and equipment	369	465	549	588	918	1,053

5. REVENUE

	For the three months ended 30 September 2018 HK\$'000 (Unaudited)		For the six months ended 30 September 2018 HK\$'000 (Unaudited)	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Financial leasing and other financial services	1,912	895	2,807	1,825
Provision of advertising and media related services	28,824	28,778	45,955	36,239
	30,736	29,673	48,762	38,064

6. OTHER INCOME AND GAINS

	For the three months ended 30 September		For the six months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Bank interest income	20	1	20	8
Interest income on loan to independent third parties	1,270	404	1,270	824
Management fee income	181	154	197	2,108
Other (loss)/income	(108)	61	68	85
Total	<u>1,363</u>	<u>620</u>	<u>1,555</u>	<u>3,025</u>

7. LOSS FROM OPERATIONS

	For the three months ended 30 September		For the six months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
The Group's loss from continuing operation is arrived at after charging/(crediting):				
Cost of sales	24,958	21,417	41,310	27,626
Depreciation of property, plant and equipment	552	782	925	1,596
Loss on disposal of property, plant and equipment	-	-	97	159
Loss on fair value changes on financial assets through profit or loss	-	64	-	661
Net foreign exchange (loss)/gain	(15)	9	(43)	(5)
Minimum lease payment under operating lease on premises	2,761	2,095	3,515	4,300
Staff costs (including directors' remuneration)	4,190	12,100	8,470	23,815
	<u>4,190</u>	<u>12,100</u>	<u>8,470</u>	<u>23,815</u>

8. FINANCE COSTS

	For the three months ended 30 September		For the six months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Interest on other borrowings	1,161	1,276	1,932	2,458
Interest on obligation under finance leases	47	32	47	59
Interest on corporate bond	-	230	-	528
Total	<u>1,208</u>	<u>1,538</u>	<u>1,979</u>	<u>3,045</u>

9. INCOME TAX (CREDIT)/EXPENSE

	For the three months ended 30 September		For the six months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Current tax (credited)/charged: PRC Enterprise Income Tax	<u>(18)</u>	<u>(101)</u>	<u>13</u>	<u>(87)</u>
Total tax (credited)/charged	<u>(18)</u>	<u>(101)</u>	<u>13</u>	<u>(87)</u>

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

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 2018 (2017: Nil).

The Group had no significant unprovided deferred tax assets and liabilities at 30 September 2018 (2017: Nil).

10. LOSS PER SHARE

Basic 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 2018 of approximately HK\$2,311,000 (2017: HK\$16,463,000) and loss attributable to owners of the Company for the six months ended 30 September 2018 of approximately HK\$11,823,000 (2017: HK\$35,185,000) and the weighted average of 3,240,859,951 shares in issue during the three months ended 30 September 2018 (2017: 2,788,049,737 shares) and the weighted average of 3,240,859,951 shares in issue during the six months ended 30 September 2018 (2017: 2,782,680,668 shares).

Diluted loss per share

Diluted loss per share for the three months and six months ended 30 September 2018 and 2017 are the same as the respective basic loss per share because all potential dilutive ordinary shares would decrease the loss per share and, therefore, is anti-dilutive.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2018, the Group did not acquire any property, plant and equipment (six months ended 30 September 2017: HK\$626,000) and items of property, plant and equipment with carrying amounts of approximately HK\$97,000 were disposed of (six months ended 30 September 2017: HK\$213,000).

12. TRADE AND OTHER RECEIVABLES AND DEPOSITS

	At 30 September 2018 HK\$'000 (Unaudited)	At 31 March 2018 HK\$'000 (Audited)
Trade receivables	28,016	26,737
Deposits	183,408	153,471
Prepayments	7,204	7,990
Other receivables	75,443	78,496
Loan receivables	58,258	69,549
	<hr/> 352,329 <hr/>	<hr/> 336,243 <hr/>

An aged analysis of the Group's trade receivables at the end of the reporting period is as follows:

	At 30 September 2018 HK\$'000 (Unaudited)	At 31 March 2018 HK\$'000 (Audited)
0 – 30 days	5,068	1,693
31 – 60 days	921	212
61 – 90 days	10,922	2,786
Over 90 days	11,105	22,046
	<hr/> 28,016 <hr/>	<hr/> 26,737 <hr/>

13. FINANCE LEASE RECEIVABLES – NET

	At 30 September 2018 <i>HK\$'000</i> (Unaudited)	At 31 March 2018 <i>HK\$'000</i> (Audited)
Current portion	5,755	6,315
Non-current portion	–	–
	<u>5,755</u>	<u>6,315</u>

Certain rental vehicles have been leased out or disposed of through finance leases entered into by the Group. These leases have remaining terms of less than 1 year.

14. TRADE AND OTHER PAYABLES

	At 30 September 2018 <i>HK\$'000</i> (Unaudited)	At 31 March 2018 <i>HK\$'000</i> (Audited)
Trade payables	17,098	13,989
Accruals and other payables	56,652	51,222
Security deposit received	2,036	1,433
Receipt in advance	31,288	11,341
Other non-income tax payable	703	293
	<u>107,777</u>	<u>78,278</u>

An aged analysis of the Group's trade payables at the end of the reporting period is as follows:

	At 30 September 2018 <i>HK\$'000</i> (Unaudited)	At 31 March 2018 <i>HK\$'000</i> (Audited)
0 – 30 days	8,041	1,157
31 – 60 days	3,446	454
61 – 90 days	15	5
Over 90 days	5,596	12,373
	<u>17,098</u>	<u>13,989</u>

15. OTHER BORROWINGS

	At 30 September 2018 HK\$'000 (Unaudited)	At 31 March 2018 HK\$'000 (Audited)
Unsecured other borrowings	<u>33,742</u>	<u>28,193</u>
The carrying amounts of the above borrowings are repayable:		
Within one year	26,903	20,688
Within a period of more than one year but not exceeding two years	<u>6,839</u>	<u>7,505</u>
	33,742	28,193
Less: amounts due within one year shown under current liabilities	<u>(26,903)</u>	<u>(20,688)</u>
	<u>6,839</u>	<u>7,505</u>

The other borrowings bear interest rate ranging from 4.8% to 15.0% per annum for the six months ended 30 September 2018 (year ended 31 March 2018: 4.8% to 15.0%).

16. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
At 1 April 2017, 31 March 2018, 1 April 2018 and 30 September 2018, ordinary shares of HK\$0.01 each	<u>20,000,000,000</u>	<u>200,000</u>
Issued and fully paid:		
At 1 April 2017, ordinary shares of HK\$0.01 each (Audited)	2,777,252,599	27,773
Exercise of share options	13,607,352	136
Placing of new shares	<u>450,000,000</u>	<u>4,500</u>
At 31 March 2018 and 1 April 2018, ordinary shares of HK\$0.01 each (Audited) and 30 September 2018, ordinary shares of HK\$0.01 each (Unaudited)	<u>3,240,859,951</u>	<u>32,409</u>

17. COMMITMENTS

Operating lease commitments

The Group as lessee

At the end of the reporting periods, the Group was committed to make the following future minimum lease payments in respect of office properties with lease terms under non-cancellable operating leases which are payable as follows:

	At 30 September 2018 HK\$'000 (Unaudited)	At 31 March 2018 HK\$'000 (Audited)
Within one year	2,928	10,309
In the second to fifth years, inclusive	405	13,325
	3,333	23,634

Capital commitments

	At 30 September 2018 HK\$'000 (Unaudited)	At 31 March 2018 HK\$'000 (Audited)
Capital expenditure in respect of formation of joint venture company contracted for	37,437	43,778

18. MATERIAL RELATED PARTY TRANSACTION

Save as disclosed elsewhere in these condensed consolidated financial statements, the Group had no material transaction with related parties during the period.

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Dividend

The Board does not recommend the payment of any dividend for the six months ended 30 September 2018 (2017: Nil).

Business Review

Advertising and media related services

During the period under review, the revenue contributed by such segment was approximately HK\$46.0 million (2017: HK\$36.2 million) from advertising and media services projects in Hong Kong and the PRC.

Provision of Financial Leasing and other Financial Services

During the period under review, the revenue contributed by such segment was approximately HK\$2.8 million (2017: HK\$1.8 million) from other financial services and financial leasing in the PRC.

Financial Review

For the period under review, the revenue of the Group for the six months ended 30 September 2018 was approximately HK\$48.8 million (2017: HK\$38.1 million), of which HK\$46.0 million was generated from provision of advertising and media related services (2017: HK\$36.2 million) and HK\$2.8 million was generated from provision of financial leasing and other financial services (2017: HK\$1.8 million). The revenue increased by HK\$10.7 million or 28.1% as compared with the period ended 30 September 2017.

Loss attributable to owners of the Company for the six months ended 30 September 2018 amounted to approximately HK\$11.8 million (2017: HK\$35.2 million). The change was mainly attributed to the decrease in administrative expenses to approximately HK\$19.6 million (2017: HK\$42.8 million), which was largely due to the decrease in staff costs to approximately HK\$8.5 million (2017: HK\$23.8 million).

Finance costs incurred for the period amounted to approximately HK\$2.0 million (2017: HK\$3.0 million). The decrease was mainly due to the reductions in interests on other borrowings and corporate bond as compared with the period ended 30 September 2017.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Outlook

Looking ahead, the Group keeps reviewing on its business segments to determine future directions. The Group continues to remain cost conscious through stringent cost control measures in order to improve performance of the Group. Leveraging on its experience, skillset and know-how, the Group strives to build new growth drivers and initiate new value-adding services. The Group will proactively seek business opportunities that will contribute and sustain the Group's future development on generating better return to shareholders.

Liquidity and Financial Resources

At 30 September 2018, the Group had total assets of approximately HK\$610.9 million (31 March 2018: HK\$615.8 million), including cash and bank balances of approximately HK\$35.1 million (31 March 2018: HK\$16.4 million). During the period under review, the Group financed its operation mainly with internally generated cash flow and other borrowings.

Capital Structure

There was no change in capital structure of the Group during the six months ended 30 September 2018.

Gearing Ratio

The gearing ratio, expressed as percentage of total liabilities over total assets, was 24.3% (31 March 2018: 18.3%). The increase in gearing ratio was mainly attributed to the increase in receipt in advance.

Charge on the Group's Assets

At 30 September 2018, there was no charge on the Group's assets.

Foreign Exchange Exposure

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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Capital Commitment

At 30 September 2018, the Group's capital commitment in respect of formation of joint venture company contracted for amounted to HK\$37.4 million (31 March 2018: HK\$43.8 million).

Contingent Liabilities

At 30 September 2018, the Group had no significant contingent liabilities (31 March 2018: Nil).

Material Acquisitions and Disposal of Subsidiaries and Affiliated Companies

The Group had no material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30 September 2018.

Employees

At 30 September 2018, the Group had 31 employees. 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 2018, the Group did not hold any significant investment (31 March 2018: Nil).

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

At 30 September 2018, the interests and short position of the Directors and chief executive of the Company 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 have been 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 have been entered in the register maintained by the Company pursuant to Section 352 of the SFO, or otherwise required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, are as follows:

Long positions in ordinary shares of HK\$0.01 each (the “Shares”) of the Company

Name of director	Capacity/Nature of interest	Number of Shares held/interested	Approximate percentage of the Company's issued share capital
Mr. Wu Xiaoming	Beneficial interest	508,000,000 (Note 1)	15.67%
Mr. Zhang Zihong	Beneficial owner	166,000,000	5.12%
Mr. Zhang Xiongfeng	Beneficial owner	162,909,900	5.03%
	Interest of spouse	2,120,000 (Note 2)	0.06%
	Sub-total	165,029,900	5.09%

Notes:

1. Mr. Wu Xiaoming (“Mr. Wu”), an executive director of the Company, entered into a sale and purchase agreement with a wholly-owned subsidiary of China Smartpay Group Holdings Limited (the “Vendor”) on 28 September 2017, pursuant to which the Vendor has agreed to sell, and Mr. Wu has agreed to purchase 508,000,000 ordinary shares of the Company. Mr. Wu is deemed to be interested in 508,000,000 shares upon entering of the abovementioned sale and purchase agreement.
2. These shares are owned by the spouse of Mr. Zhang Xiongfeng. Mr. Zhang Xiongfeng is deemed to be interested in all the shares held by his spouse under the SFO.

OTHER INFORMATION (Continued)

SHARE OPTION SCHEME

The Company adopted a new share option scheme (the “New Share Option Scheme”) pursuant to a resolution passed at the annual general meeting of the Company on 25 September 2012. The principal terms of the New Share Option Scheme have been set out in the annual report of the Company for the year ended 31 March 2018.

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

Date of Grant	Category of eligible persons	Exercise Price	Exercise Period	Outstanding at 1/4/2018	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Outstanding at 30/9/2018
10/03/2016	Consultants	HK\$0.339	10/03/2016 to 09/03/2019	20,820,000	-	-	-	(20,820,000)	-
13/01/2017	Consultants	HK\$0.275	13/01/2017 to 12/01/2020	61,600,000	-	-	-	(61,600,000)	-
				<u>82,420,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(82,420,000)</u>	<u>-</u>

DIRECTORS AND CHIEF EXECUTIVES’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at 30 September 2018, 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)*

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES

At 30 September 2018, so far as the Directors are aware, the following persons (not being a Director or chief executive of the Company) had or were deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO or which were recorded in the register of the Company required to be kept by the Company under Section 336 of the SFO, or who is, directly or indirectly, interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group:

Long position in the Shares of the Company

Name of shareholder	Capacity	Interest in Shares	Percentage of the Company's issued share capital
China Smartpay Group Holdings Limited	Interest of controlled corporation	508,000,000 <i>(Note 1)</i>	15.67%
Vast Mega Limited	Interest of controlled corporation	508,000,000 <i>(Note 1)</i>	15.67%
Joy Grand Investment Limited	Beneficial owner	508,000,000 <i>(Note 1)</i>	15.67%
Mr. Zhang Zhihong	Beneficial owner	166,000,000	5.12%
Mr. Zhang Xiongfeng	Beneficial owner Interest of spouse	162,909,900 2,120,000 <i>(Note 2)</i>	5.03% 0.06%
	Sub-total	165,029,900	5.09%

Notes:

1. Joy Grand Investment Limited was beneficially and wholly-owned by Vast Mega Limited, which was in turn beneficially and wholly-owned by China Smartpay Group Holdings Limited. As such, each of Vast Mega Limited and China Smartpay Group Holdings Limited was deemed to be interested in the Shares held by Joy Grand Investment Limited.
2. These shares are owned by the spouse of Mr. Zhang Xiongfeng. Mr. Zhang Xiongfeng is deemed to be interested in all the shares held by his spouse under the SFO.

Save as disclosed above, as at 30 September 2018, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person or corporation other than the Directors and the Chief Executives whose interests are set out in the section "Directors' and Chief Executives' interests and short positions in Shares, underlying Shares and debenture of the Company and its associated corporations" above, had any interest or short position in the Shares or underlying Shares of the Company that was required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

OTHER INFORMATION *(Continued)*

COMPETING INTEREST

At 30 September 2018, 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 2018.

CORPORATE GOVERNANCE

The corporate governance principles of the Company emphasise a quality Board, sound internal controls, transparency and accountability to all shareholders. By applying rigorous corporate governance practices, the Group believes that its accountability and transparency will be improved thereby instilling confidence to shareholders and the public. During the six months ended 30 September 2018, the Group has complied with the code provisions in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules.

CHANGES IN THE DIRECTORS

Mr. Zhang Zihong has been appointed as an executive Director of the Company with effect from 3 April 2018. He has been appointed as a member of the nomination committee of the Company with effect from 13 April 2018.

Mr. Zhang Xiongfeng has been appointed as a non-executive Director of the Company and a member of the audit committee of the Company with effect from 3 April 2018.

Ms. Zhu Qi has resigned as an executive Director of the Company with effect from 3 April 2018.

Dr. Shen Furong has resigned as an executive Director, and a member of the nomination committee of the Company with effect from 13 April 2018.

Mr. Wei Shu Jun has resigned as an executive Director with effect from 13 April 2018.

Mr. Wang Hsiang Hung has resigned as an independent non-executive Director with effect from 13 April 2018.

Mr. Law Yui Lun, an independent non-executive Director, has resigned as the Chairman of the nomination committee of the Company but remained as a member of the nomination committee of the Company with effect from 13 April 2018.

OTHER INFORMATION *(Continued)*

CHANGES IN THE DIRECTORS *(Continued)*

Dr. Li Zhan, an independent non-executive Director, has been appointed as the chairman of the nomination committee of the Company with effect from 13 April 2018.

Mr. Lien Wai Hung has resigned as chairman of the Board, an executive Director of the Company, a member of each of the nomination committee and remuneration committee of the Company with effect from 31 July 2018.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 September 2018, 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.

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 comprises the non-executive director Mr. Zhang Xiongfeng and three independent non-executive directors namely, Mr. Law Yui Lun (the Chairperson), Dr. Zhang Wei and Dr. Li Zhan. The audit committee has reviewed the Group's unaudited consolidated financial statements for the six months ended 30 September 2018.

BOARD OF DIRECTORS

At the date of this report, the board of Directors comprises two executive Directors, namely Mr. Wu Xiaoming and Mr. Zhang Zihong, one non-executive Director, namely Mr. Zhang Xiongfeng, and three independent non-executive Directors, namely Dr. Zhang Wei, Dr. Li Zhan and Mr. Law Yui Lun.

By Order of the Board
Zhi Cheng Holdings Limited
Wu Xiaoming
Executive Vice Chairman

Hong Kong, 14 November 2018