

# ZHICHENG

TECHNOLOGY GROUP LTD.

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE : 8511

THIRD QUARTERLY REPORT

**2018**

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

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

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

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

*This report will be available on the Company’s website [www.ztecgroup.com](http://www.ztecgroup.com) and will remain on the “Latest Company Announcements” page on the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the date of its posting.*

## HIGHLIGHTS

Recorded an unaudited revenue of approximately HK\$20.8 million for the nine months ended 31 December 2018, representing an increase of approximately 26.7% as compared to the corresponding period of the previous year.

Recorded an unaudited loss attributable to the owners of the Company of approximately HK\$3.0 million for the nine months ended 31 December 2018, compared to the loss of approximately HK\$10.8 million in the corresponding period of the previous year, which was mainly attributed to the decrease in administrative expenses.

Basic and diluted losses per share for the nine months ended 31 December 2018 were approximately HK0.77 cents (2017: basic and diluted losses per share approximately HK3.64 cents).

The board of Directors (the “Board”) of the Company presents the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively the “Group”) for the nine months ended 31 December 2018 (the “Reporting Period”), together with the comparative figures for the corresponding period of 2017 as follows:

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

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the three months ended 31 December		For the nine months ended 31 December	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Revenue	3	12,387	7,286	20,808	16,419
Cost of sales		(6,759)	(2,354)	(10,377)	(5,021)
<b>Gross profit</b>		<b>5,628</b>	4,932	<b>10,431</b>	11,398
Selling and marketing expenses		(1,323)	(462)	(3,537)	(1,310)
Administrative expenses		(3,125)	(3,870)	(9,474)	(20,184)
Other income/(losses) — net		13	(95)	95	(71)
<b>Operating profit/(loss)</b>		<b>1,193</b>	505	<b>(2,485)</b>	(10,167)
Finance income		19	1	287	2
Finance income — net		19	1	287	2
<b>Profit/(Loss) before income tax</b>		<b>1,212</b>	506	<b>(2,198)</b>	(10,165)
Income tax expense	4	(743)	(982)	(844)	(630)
<b>Profit/(Loss) attributable to:</b>					
Owners of the Company		469	(476)	(3,042)	(10,795)
<b>Other comprehensive income</b>					
Items that will not be reclassified to currency translation differences		—	—	—	(68)
<b>Other comprehensive income for the period, net of tax</b>		—	—	—	(68)
<b>Total comprehensive income attributable to:</b>					
Owners of the Company		469	(476)	(3,042)	(10,863)
<b>Earnings/(Losses) per share</b>					
— Basic and diluted (HK cents)	6	0.12	(0.16)	(0.77)	(3.64)

# UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Statutory reserve HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	Total HK\$'000
<b>Balance at 1 April 2017 (Audited)</b>	-	-	552	82	-	14,491	15,125
Comprehensive income							
— Loss for the period	-	-	-	-	-	(10,795)	(10,795)
— Other comprehensive income	-	-	-	(68)	-	-	(68)
<b>Total comprehensive income</b>	-	-	-	(68)	-	(10,795)	(10,863)
Issuance of shares	-	1,260	-	-	-	-	1,260
Deemed distributions to the then owner of a group company	-	-	(389)	-	-	-	(389)
<b>Balance at 31 December 2017 (Unaudited)</b>	-	1,260	163	14	-	3,696	5,133
<b>Balance at 1 April 2018 (Audited)</b>	-	1,260	163	82	301	2,955	4,761
Comprehensive income							
— Loss for the period	-	-	-	-	-	(3,042)	(3,042)
— Other comprehensive income	-	-	-	-	-	-	-
<b>Total comprehensive income</b>	-	-	-	-	-	(3,042)	(3,042)
Issuance of shares by capitalisation	234	(234)	-	-	-	-	-
Issuance of shares	78	64,922	-	-	-	-	65,000
Shares issuance costs	-	(14,308)	-	-	-	-	(14,308)
<b>Balance at 31 December 2018 (Unaudited)</b>	312	51,640	163	82	301	(87)	52,411

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

Zhicheng Technology Group Ltd. was incorporated in the Cayman Islands on 23 June 2017 as an exempted company with limited liability. The address of its registered office is the offices of Sertus Incorporations (Cayman) Limited, Sertus Chambers, Governors Square, Suit # 5-204, 23 Lime Tree Bay Avenue, P.O. Box 2547 Grand Cayman, KY1-1104 Cayman Islands. The Company's shares were listed on GEM of the Stock Exchange on 20 April 2018.

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

These unaudited condensed consolidated financial statements are presented in Hong Kong dollar ("HK\$"), unless otherwise stated, and have been approved for issue by the Board on 29 January 2019.

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated results of the Group for the nine months ended 31 December 2018 have been prepared in accordance with applicable Hong Kong Financial Reporting Standards ("HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). The unaudited condensed consolidated financial statements have been prepared under the historical cost convention.

The accounting policies and method of computation adopted in preparing the unaudited condensed consolidated results for the nine months ended 31 December 2018 are consistent with those adopted in the audited financial statements for the year ended 31 March 2018, except in relation to the new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are adopted for the first time for the current accounting period. Except as disclosed in note 2 to the unaudited condensed consolidated interim financial statements dated 12 November 2018, none of those developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not early adopted any new and revised HKFRSs that have been issued but are not yet effective.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 3 REVENUE

Revenue by nature:

	For the three months ended 31 December 2018		For the nine months ended 31 December 2018	
	HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
<b>Precision 3D testing solutions</b>				
— Sales of equipment	9,482	6,910	13,972	13,804
— Technical services	2,118	376	5,145	2,615
	<b>11,600</b>	7,286	<b>19,117</b>	16,419
<b>Precision machining solutions</b>				
— Sales of equipment	618	—	1,522	—
— Technical services	169	—	169	—
	<b>787</b>	—	<b>1,691</b>	—
<b>Total</b>	<b>12,387</b>	7,286	<b>20,808</b>	16,419

Revenue by type of solutions:

	For the three months ended 31 December 2018		For the nine months ended 31 December 2018	
	HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
<b>Precision 3D testing solutions</b>				
— Static 3D scanning	11,139	2,467	17,545	10,952
— Dynamic 3D scanning	461	4,819	1,572	5,467
	<b>11,600</b>	7,286	<b>19,117</b>	16,419
<b>Precision machining solutions</b>	<b>787</b>	—	<b>1,691</b>	—
<b>Total</b>	<b>12,387</b>	7,286	<b>20,808</b>	16,419

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 4 INCOME TAX EXPENSE

	For the three months ended		For the nine months ended	
	31 December		31 December	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Current income tax</b>				
— PRC corporate income tax	743	274	844	616
— Others	—	75	—	75
Deferred income tax	—	633	—	(61)
	<b>743</b>	982	<b>844</b>	630

No income tax relating to components of other comprehensive income was charged for the nine months ended 31 December 2018 (2017: same).

- (a) Pursuant to the Corporate Income Tax Law of the PRC (the "CIT Law") and the Implementation Rules of the CIT Law in the PRC, the standard tax rate is 25% for the Group's subsidiaries and operations in the PRC. On 11 December 2017, Quick Tech Corporation Ltd. ("Quick Tech"), the Group's subsidiary incorporated in the PRC, was awarded the High and New Technology Enterprise which is effective for three years commencing on 1 January 2017 and is entitled to preferential income tax rate of 15% for these three years.
- (b) Hong Kong Cheng Phong Technology Limited ("Hong Kong Cheng Phong"), Bow Chak Industry (HK) Limited ("Bow Chak") and MGW Swans Ltd. ("MGW Swans") are the Group's subsidiaries incorporated in Hong Kong and BVI. However, their principal businesses for the nine months ended 31 December 2018 were carried out in the PRC (2017: same) and the related income was subject to PRC corporate income tax. Hong Kong Cheng Phong, Bow Chak and MGW Swans were approved by the PRC in-charge tax bureau to pay PRC income tax on a "deemed profit basis", according to which their taxable income was calculated at 15% of revenue for the nine months ended 31 December 2018 (2017: same).
- (c) The statutory Hong Kong profits tax rate is 16.5%.

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



# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 4 INCOME TAX EXPENSE *(Continued)*

No provision for Hong Kong profits tax was made for the Company's subsidiary in Hong Kong other than Hong Kong Cheng Phong and Bow Chak because it does not have any assessable profits in Hong Kong for the nine months ended 31 December 2018.

- (d) The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

The Company's subsidiaries in BVI were incorporated under the International Business Companies Act of the British Virgin Islands and accordingly, are exempted from British Virgin Islands income tax.

## 5 DIVIDENDS

The directors did not recommend the payment of any interim dividend for the nine months ended 31 December 2018 (2017: nil).

## 6 EARNINGS/(LOSSES) PER SHARE

Basic earnings per share is calculated by dividing the earnings for the period by the weighted average number of ordinary shares in issue during the nine months ended 31 December 2018 and 2017. In determining the weighted average number of the ordinary shares in issue, the 98,000 ordinary shares issued during the Reorganisation were deemed to be in issue throughout the periods. Capitalisation issue of 299,900,000 shares to the then shareholder has also been taken into account.

	For the three months ended		For the nine months ended	
	31 December		31 December	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Profit/(loss) for the period attributable to owners of the Company (HK\$'000)	469	(476)	(3,042)	(10,795)
Weighted average number of ordinary shares in issue (thousand of shares)	400,000	300,000	393,091	296,793
Basic earnings/(losses) per share (HK cents)	0.12	(0.16)	(0.77)	(3.64)

Diluted earnings per share presented is the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued during the nine months ended 31 December 2018 (2017: same).

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW AND OUTLOOK

The Group is a smart manufacturing solution provider focusing on precision 3D testing solutions and precision machining solutions in China. The Group provides smart manufacturing solutions to serve the needs of high-end equipment manufacturers which require a high level of precision in the manufacture of their industrial products. Its solutions comprise and integrate various equipment and services, ranging from solution concept and design, procurement of machinery, auxiliary tools and software and system installation and debugging to provision of aftersales services such as technical support and training.

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

For the nine months ended 31 December 2018, the Group actively sought its own growth, expanding new customers base in various industries and regions and consolidating relationships with existing customers at the same time. During the Reporting Period, 18 new projects were obtained and 22 projects were completed by the Group. Thus, the Group had 8 projects on 31 December 2018. Confronted with ever growing market demand, the Group will continue to develop new technologies and update solutions to obtain the market opportunities that are going to explode.

The Group has ever been aiming at new technology development including, inter alia, new auxiliary tools design and relevant software applications. As of 31 December 2018, the Group has 8 registered patents, including 3 invention patents and 5 utility model patents as well as 20 pending invention patent registrations.

The smart manufacturing solution market where the Group partakes in features high technological requirements and rapid fresh cycle for technology. To align closely with the latest and forthcoming technology, the Group would continuously set up research and development centers in Beijing and Guangzhou to develop advanced solutions and technological applications during the Reporting Period and seek technological cooperation with prestigious colleges and universities proactively as well at the same time. On the other hand, the Group held two large-scale product application seminars in Zhuhai and Luoyang respectively for its existing and potential clients during the Reporting Period and achieved great success. By virtue of the technological edges of the Group in the industry, the Group will promote the integrated smart manufacturing solutions continually in 2019, and understand the industrial evolution and promote the Company’s products by organizing seminars and participation in exhibitions.

Looking forward, the Group will organically expand its business, broaden its operation scale and realize its business growth, increasing its market share and market competitiveness. In addition, the Group will continue to expand its talent pool to recruit professional sales and marketing staffs, as well as administrative staffs, for future business expansion. The Group deploys establishing branches in different cities (e.g. Chongqing and Changsha) for sales coverage expansion and also provides our customers with better services in order to increase the added-value of our products.

## MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

## Revenue

For the nine months ended 31 December 2018, the Group recorded revenue of approximately HK\$20.8 million, representing an increase of 26.7% comparing with that of approximately HK\$16.4 million for the nine months ended 31 December 2017. Set out below is the revenue breakdown of the Group for the nine months ended 31 December 2018 and the nine months ended 31 December 2017:

	Nine months ended 31 December			
	2018		2017	
	Revenue HK\$'000	% of revenue %	Revenue HK\$'000	% of revenue %
<b>Precision 3D testing solutions</b>				
Static 3D scanning	17,545	84.3	10,952	66.7
Dynamic 3D scanning	1,572	7.6	5,467	33.3
<b>Overall precision 3D testing solutions</b>	<b>19,117</b>	<b>91.9</b>	16,419	100
<b>Precision machining solutions</b>	<b>1,691</b>	<b>8.1</b>	–	–
<b>All solutions</b>	<b>20,808</b>	<b>100</b>	16,419	100

Precision 3D testing solutions: Revenue from precision 3D testing solutions increased by 16.4% to HK\$19.1 million for the nine months ended 31 December 2018 from HK\$16.4 million for the nine months ended 31 December 2017. This increase was mainly attributable to an increase in the number of precision 3D testing solutions projects carried out by the Group. For the nine months ended 31 December 2018, the Group's revenue was derived from 22 projects. For the nine months ended 31 December 2017, the Company carried out 9 projects.

Precision machining solutions: For the nine months ended 31 December 2018, the Company has carried out 2 precision machining solutions project and recorded a revenue of HK\$1.7 million, while for the nine months ended 31 December 2017, the Company did not carry out any precision machining solutions project.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Cost of sales

Cost of sales increased by 106.7% to HK\$10.4 million for the nine months ended 31 December 2018 from HK\$5.0 million for the nine months ended 31 December 2017, mainly due to the increase in equipment costs because the number of projects providing equipment during the Reporting Period is relatively high.

### Gross profit and gross profit margin

As a result of the foregoing, gross profit decreased by 8.5% to HK\$10.4 million for the nine months ended 31 December 2018 from HK\$11.4 million for the nine months ended 31 December 2017. Its gross profit margin decreased to 50.1% for the nine months ended 31 December 2018 from 69.4% for the nine months ended 31 December 2017. The decrease is mainly due to the following reasons: First, two precision machining solutions projects generally having lower gross profit margin are carried out for the nine months ended 31 December 2018. Second, a substantial part of projects carried out for the nine months ended 31 December 2018 are mainly providing homemade modules and the gross profit margin is relatively low, whereas all the projects carried out are those mainly providing imported modules and the gross profit margin is relatively high for the nine months ended 31 December 2017.

### Selling and marketing expenses

Selling and marketing expenses increased to HK\$3.5 million for the nine months ended 31 December 2018 from HK\$1.3 million for the nine months ended 31 December 2017. This increase was mainly attributable to an increase in advertising and promotion fees as the Company has enhanced its marketing efforts.

### Administrative expenses

Administrative expenses decreased by 53.1% to HK\$9.5 million for the nine months ended 31 December 2018 from HK\$20.2 million for the nine months ended 31 December 2017. The decrease was mainly due to the absence of listing expenses of HK\$11.8 million, which was offset by an increase of HK\$1.1 million in expenses arising from operation expansion.

### Income tax expense

The Company had an income tax expense of HK\$0.8 million for the nine months ended 31 December 2018. Income tax expense included the PRC income tax of Hong Kong Cheng Phong, Bow Chak and MGW, calculated on a deemed profit basis.

### Loss

The Company recorded a loss of HK\$3.0 million for the nine months ended 31 December 2018 compared to a loss of HK\$10.8 million for the nine months ended 31 December 2017. The decrease in loss was mainly due to the abovementioned decrease in administrative expense.

## MANAGEMENT DISCUSSION AND ANALYSIS

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

#### Borrowings

As at 31 December 2018, the Group did not have any bank borrowings and other interest-bearing borrowings.

#### Contingent Liabilities

As at 31 December 2018, the Group did not have any significant contingent liabilities.

#### Capital Commitments

As at 31 December 2018, the Group had the following non-cancellable operating lease commitments:

	<i>HK\$'000</i>
No later than 1 year	280

#### Pledge of Assets

As at 31 December 2018, the Group did not have any pledge on its assets.

#### Exchange Rate Risk Exposure

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

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

### SIGNIFICANT INVESTMENTS HELD

As at 31 December 2018, the Group did not hold any significant investments.

### FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Except for the investment regarding research and development centres as disclosed in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 29 March 2018 (the "Prospectus"), as at 31 December 2018, the Group did not have any plans for material investments and capital assets.

### MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the nine months ended 31 December 2018, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies, save as reorganisation for the purpose of Listing as disclosed in the section headed "History, Reorganisation and Corporate Structure" in the Prospectus.

## MANAGEMENT DISCUSSION AND ANALYSIS

### EMPLOYEES AND EMOLUMENT POLICIES

As at 31 December 2018, the Group had a total of 29 (2017: 19) employees, including executive directors of the companies of the Group. The Group values employees because they are pivotal to our success. To recruit, develop and retain talented employees, the Group has provided its employees competitive remuneration packages, including internal promotion opportunities and performance-based bonus. The remuneration committee of the Company shall make recommendation to its Board on the overall remuneration policy and structure relating to all Directors and senior management; review remuneration proposals of the management with reference to its Board's corporate goals and objectives; and ensure none of its Directors or any of their associates determine their own remuneration.

### PRINCIPAL RISKS AND UNCERTAINTIES

#### Business risk

The principal business of the Group is to provide smart manufacturing solutions to its customers on a project basis. As there are no long term contractual arrangements with its customers, no assurance that the Group will continue to secure new contracts or maintain or increase its current level of business activities with existing or future customers in the future. Therefore, the Group is increasing its sales and marketing efforts, expanding its sales teams and administrative teams, sales points and sales coverage, aiming to continuously get new tenders, secure contracts from more customers and increase market share.

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

#### Credit risk

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

#### Liquidity risk

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### USE OF PROCEEDS

The Shares were listed on GEM of the Stock Exchange on 20 April 2018, and all of the funds raised from the initial public offering have been received within the nine months ended 31 December 2018. The Company intended to apply the net proceeds of approximately HK\$25.0 million in the manner as described in the section headed “Use of Proceeds” in the annual report of the Company dated 27 June 2018 (“2018 Annual Report”). As at 31 December 2018, all of the unutilised net proceeds have been deposited into bank accounts under the name of the Group.

Set out below is the use of the net proceeds for the nine months ended 31 December 2018:

Use of proceeds	Amount of planned use according to the 2018 Annual Report	Amount used up to 31 December 2018	Remaining balance	Expected time of full utilisation of the remaining balance
	HK\$ million	HK\$ million	HK\$ million	
Establishing our own research and development centres and further research and development expenditures relating to product research and development, recruitment and provision of training for technical staff	11.9	6.4	5.5	March 2020
Business expansion, including establishment of sales branches in different regions in China, expansion of office premises, recruitment of management and local salesforces for various branches and provision of relevant internal and external training	6.8	2.4	4.4	March 2020
Organising seminars, participating in local and international exhibitions and developing and implementing advertising plans	3.8	1.3	2.5	March 2020
Working capital and general corporate purposes	2.5	1.0	1.5	March 2020
	25.0	11.1	13.9	

## MANAGEMENT DISCUSSION AND ANALYSIS

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

As at 31 December 2018, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to Section 352 of the SFO, to be recorded in the register referred therein; or (c) pursuant to Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

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

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

Notes:

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

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

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

Save as disclosed above and so far the Directors, as at 31 December 2018, none of the Directors and chief executive of the Company had any interests or short positions in the Share, underlying Shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to Section 352 of the SFO, to be recorded in the register referred therein; or (c) pursuant to Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.



## MANAGEMENT DISCUSSION AND ANALYSIS

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

As at 31 December 2018, the interests and short positions of the substantial shareholders of the Company (other than the Directors and the chief executives of the Company) in the Shares and underlying Shares of the Company which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required, pursuant to Section 336 of the SFO, to be entered in the register to therein, were as follows:

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

Note: Mr. RUAN David Ching Chi holds 95.24% shareholding in RAYS Capital Partners Limited, which holds 100% shareholding in Asian Equity Special Opportunities Portfolio Master Fund Limited.

Therefore, the Mr. RUAN David Ching Chi is deemed to be interested in the shares held by Asian Equity Special Opportunities Portfolio Master Fund Limited.

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any other persons/entities (other than the Directors and chief executives of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

### SHARE OPTION SCHEME

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

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

No options were granted, exercised, cancelled or lapsed from the date of adoption of the Share Option Scheme to 31 December 2018 and there were no outstanding options from the date of the adoption of the Share Option Scheme to 31 December 2018.

## MANAGEMENT DISCUSSION AND ANALYSIS

### INTERESTS IN COMPETING BUSINESS

For the nine months ended 31 December 2018, none of the Directors or any of their respective close associates (as defined under the GEM Listing Rules) are engaged in any business that competes or may compete, directly or indirectly, with the business of the Group or have any other conflicts of interest with the Group nor are they aware of any other conflicts of interest which they have or may have with the Group.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

None of the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date to 31 December 2018.

### INTERESTS OF COMPLIANCE ADVISER

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

### CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

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

### CORPORATE GOVERNANCE PRACTICES

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

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

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

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

The Group has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "Standard of Dealings"), as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he or she has complied with the required Standard of Dealings since the Listing Date and up to 31 December 2018.

## MANAGEMENT DISCUSSION AND ANALYSIS

### INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the nine months ended 31 December 2018 (for the nine months ended 31 December 2017: nil).

### AUDIT COMMITTEE

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

The quarterly results of the Group for the nine months ended 31 December 2018 have been reviewed by the Audit Committee in a meeting held on 29 January 2019.

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

Hong Kong, 29 January 2019

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