ZHICHENG TECHNOLOGY GROUP LTD.

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE : 8511

THIRD QUARTERLY REPORT

2019

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*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** and will remain on the "Latest Company Announcements" page on the GEM website at **www.hkgem.com** for at least 7 days from the date of its posting.*

HIGHLIGHTS

The Company recorded an unaudited revenue of approximately HK$19.7 million for the nine months ended 31 December 2019, representing a decrease of approximately 5.5% as compared to the corresponding period of the previous year.

The Company recorded an unaudited loss attributable to the owners of the Company of HK$3.5 million for the nine months ended 31 December 2019, compared to the loss of HK$3.0 million in the corresponding period of the previous year, which was mainly attributed to the decrease in gross profit.

Basic and diluted losses per share for the nine months ended 31 December 2019 were approximately HK0.87 cents (2018: basic and diluted losses per share approximately HK0.77 cents).

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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 2019 (the "**Reporting Period**"), together with the comparative unaudited figures for the corresponding period of 2018 as follows:

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

		For the three months ended 31 December		For the nine months ended 31 December	
		2019	2018	**2019**	2018
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue	*3*	**6,871**	12,387	**19,668**	20,808
Cost of sales		**(3,432)**	(6,759)	**(9,815)**	(10,377)
Gross profit		**3,439**	5,628	**9,853**	10,431
Selling and marketing expenses		**(1,137)**	(1,323)	**(3,855)**	(3,537)
Administrative expenses		**(1,405)**	(3,125)	**(9,091)**	(9,474)
Other (losses)/income — net		**(18)**	13	**166**	95
Operating profit/(loss)		**879**	1,193	**(2,927)**	(2,485)
Finance income		**5**	19	**19**	287
Profit/(Loss) before income tax		**884**	1,212	**(2,908)**	(2,198)
Income tax expense	*4*	**(382)**	(743)	**(581)**	(844)
Profit/(Loss) attributable to:					
Owners of the Company		**502**	469	**(3,489)**	(3,042)
Other comprehensive income		**–**	–	**–**	–
Total comprehensive income attributable to:					
Owners of the Company		**502**	469	**(3,489)**	(3,042)
Earnings/(Losses) per share					
— Basic and diluted (HK cents)	*6*	**0.13**	0.12	**(0.87)**	(0.77)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital *HK$'000*	Share premium *HK$'000*	Capital reserves *HK$'000*	Foreign exchange reserves *HK$'000*	Other reserves *HK$'000*	(Accumulated losses)/ Retained earnings *HK$'000*	Total *HK$'000*
Balance at 1 April 2018 (Audited)	–	1,260	163	82	301	2,955	4,761
Comprehensive income							
— Loss for the period	–	–	–	–	–	(3,042)	(3,042)
Total comprehensive income	–	–	–	–	–	(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)
Balance at 31 December 2018 (Unaudited)	312	51,640	163	82	301	(87)	52,411
Balance at 1 April 2019 (Audited)	**312**	**51,640**	**163**	**12**	**1,156**	**9,411**	**62,694**
Comprehensive income							
— Loss for the period	**–**	**–**	**–**	**–**	**–**	**(3,489)**	**(3,489)**
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**(3,489)**	**(3,489)**
Balance at 31 December 2019 (Unaudited)	**312**	**51,640**	**163**	**12**	**1,156**	**5,922**	**59,205**

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, Suite # 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 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 of the Company on 7 February 2020.

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 2019 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.

For the purpose of the accounting policies and method of computation adopted in preparing the unaudited condensed consolidated results for the nine months ended 31 December 2019, the accounting policies adopted in this report are consistent with those adopted in the audited financial statements for the year ended 31 March 2019, except for a number of new standards and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants that are effective for the current accounting period of the Group. Except as disclosed below, none of these amendments have 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.

2.1 New and amended standards adopted by the Group

The following new or revised standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting the following standards:

- HKFRS 16 Leases

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The Group has adopted HKFRS 16 retrospectively from 1 April 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new and amended requirements with respect to lease accounting are therefore recognised in the opening statement of financial position on 1 April 2019.

(a) Adjustments recognised on adoption of HKFRS 16

Before the adoption of HKFRS 16, commitments under operating leases for future periods were not recognised by the Group as liabilities. Operating lease rental expenses were recognised in the consolidated statement of comprehensive income over the lease period on a straight-line basis.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. As at 31 March 2019, the Group has only lease commitment no later than 1 year amounted to HK$214,000. Such lease can be exempted from the reporting obligation under HKFRS 16.

(b) Accounting policies adopted since 1 April 2019

The Group is currently a lessee for certain offices and staff quarters. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the year ended 31 March 2019, the leases of the Group were classified as operating leases. Payments made under operating leases were recognised as an expense on a straight-line basis over the lease term.

From 1 April 2019 onwards, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

(b) Accounting policies adopted since 1 April 2019 *(Continued)*

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

The directors consider that the adoption of the new standard will not have material impact on the financial position and the financial performance of the Group as the Group only holds short-term leases of less than twelve months in a total lease commitment of HK$268,000 as at 31 December 2019, which can be exempted from the reporting obligation under HKFRS 16.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3 REVENUE

Revenue by nature:

	For the three months ended 31 December		For the nine months ended 31 December	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Precision 3D testing solutions				
— Sales of equipment	**4,806**	9,482	**16,718**	13,972
— Technical services	**2,065**	2,118	**2,950**	5,145
	6,871	11,600	**19,668**	19,117
Precision machining solutions				
— Sales of equipment	**–**	618	**–**	1,522
— Technical services	**–**	169	**–**	169
	–	787	**–**	1,691
Total	**6,871**	12,387	**19,668**	20,808

Revenue by type of solutions:

	For the three months ended 31 December		For the nine months ended 31 December	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Precision 3D testing solutions				
— Static 3D scanning	**6,406**	11,139	**9,773**	17,545
— Dynamic 3D scanning	**465**	461	**9,895**	1,572
	6,871	11,600	**19,668**	19,117
Precision machining solutions	**–**	787	**–**	1,691
Total	**6,871**	12,387	**19,668**	20,808

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4 INCOME TAX EXPENSE

	For the three months ended 31 December		For the nine months ended 31 December	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Current income tax				
— PRC corporate income tax	**83**	743	**563**	844
— Others	**(53)**	–	**18**	–
Deferred income tax	**352**	–	**–**	–
	382	743	**581**	844

No income tax relating to components of other comprehensive income was charged for the nine months ended 31 December 2019 (2018: 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. Quick Tech is planning to apply for the renewal of High and New Technology Enterprise in year 2020 pursuant to relevant regulations so as to extend the preferential income tax rate for another 3 years commencing on 1 January 2020.

(b) Hong Kong Cheng Phong Technology Limited ("**Hong Kong Cheng Phong**"), Bow Chak Industry (HK) Limited ("**Bow Chak**") and MGW Swans Ltd. ("**MGW Swans**") are the Group's subsidiaries incorporated in Hong Kong and BVI. However, their principal businesses were carried out in the PRC and the related income was subject to PRC corporate income tax. Hong Kong Cheng Phong, Bow Chak and MGW Swans were approved by the PRC in-charge tax bureau to pay PRC income tax on a "deemed profit basis", according to which their taxable income was calculated at 15% of revenue for the nine months ended 31 December 2019 (2018: 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 these consolidated financial statements. Thus, Hong Kong Cheng Phong and Bow Chak have trued up their profits tax provision according to 16.5% profits tax rate in Hong Kong.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4 INCOME TAX EXPENSE *(Continued)*

(c) *(Continued)*

Hong Kong Zhi Phong Technology Limited ("**Hong Kong Zhi Phong**") is a subsidiary of the Group incorporated in Hong Kong other than Hong Kong Cheng Phong and Bow Chak. Hong Kong Zhi Phong has made its profits tax provision according to 16.5% profits tax rate in Hong Kong for the nine months ended 31 December 2019.

(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 has not made provision for Hong Kong profits tax in Hong Kong because the Company has no any taxable profits in Hong Kong for the nine months ended 31 December 2019.

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 DIVIDEND

The directors did not recommend the payment of any interim dividend for the nine months ended 31 December 2019 (2018: nil).

6 EARNINGS/(LOSSES) PER SHARE

Basic losses per share is calculated by dividing the loss for the period by the weighted average number of ordinary shares in issue during the nine months ended 31 December 2018 and 2019.

	For the three months ended 31 December		**For the nine months ended 31 December**	
	2019 (Unaudited)	2018 (Unaudited)	**2019 (Unaudited)**	2018 (Unaudited)
Profit(/loss) for the period attributable to owners of the Company *(HK$'000)*	**502**	469	**(3,489)**	(3,042)
Weighted average number of ordinary shares in issue *(thousand of shares)*	**400,000**	400,000	**400,000**	393,091
Basic earnings/(losses) per share *(HK cents)*	**0.13**	0.12	**(0.87)**	(0.77)

Diluted earnings/(losses) per share presented is the same as the basic earnings/(losses) per share as there were no potentially dilutive ordinary shares issued during the nine months ended 31 December 2019 (2018: 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 Company provides smart manufacturing solutions to serve the needs of high-end equipment manufacturers which require a high level of precision in the manufacture of their industrial products. Its solutions comprise and integrate various equipment and services, ranging from solution concept and design, procurement of machinery, auxiliary tools and software and system installation and debugging to provision of aftersales services such as technical support and training.

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

For the nine months ended 31 December 2019, the Group strived for organic growth by actively approaching new customers of various industries and regions, as well as consolidating relationships with existing customers. During the Reporting Period, 6 new projects were obtained, and 8 existing projects were completed by the Group. Thus, the Group had 6 on-going projects as at 31 December 2019, which were all precision 3D scanning solutions projects. The Group will continue to innovate and develop new technologies and make use of solutions that advance with the times, aiming to meet the ever-growing market demands.

The Group has ever been aiming at new technology development including, inter alia, new auxiliary tools design and relevant software applications. As of 31 December 2019, the Group has 13 registered patents, including 6 invention patents and 7 utility model patents as well, and 9 invention patents plus 3 utility model patents in the registration process.

The smart manufacturing solution market where the Group partakes in features high technological requirements and rapid fresh cycle for technology. To align with the latest and forthcoming technology, the Group continued to strengthen its research and development of advanced solutions and technological applications during the period and seek technological cooperation with prestigious colleges and universities proactively as well at the same time. The Group participated in the 2019 China International Machine Tool Show and the first Nanchang Flight Conference held in Beijing and Nanchang respectively during the period, and took this opportunity to communicate with existing and potential customers on product application and technology 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 2020, 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 realise its business growth, improving market competitiveness while increasing market share. 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. Furthermore, the Group plans to establish a branch in Changsha to expand its sales coverage and 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 2019, the Group recorded revenue of approximately HK$19.7 million, representing a decrease of 5.5% comparing with that of approximately HK$20.8 million for the nine months ended 31 December 2018 due to the absence of precision machining solution project during the period. Set out below is the revenue breakdown of the Group for the nine months ended 31 December 2019 and the nine months ended 31 December 2018:

	Nine months ended 31 December			
	2019		2018	
	Revenue	**% of Revenue**	Revenue	% of Revenue
	HK$'000	**(%)**	***HK$'000***	*(%)*
Precision 3D testing solutions				
Static 3D scanning	**9,773**	**49.7**	17,545	84.3
Dynamic 3D scanning	**9,895**	**50.3**	1,572	7.6
Overall precision 3D testing solutions	**19,668**	**100.0**	19,117	91.9
Precision machining solutions	**–**	**–**	1,691	8.1
All solutions	**19,668**	**100.0**	20,808	100.0

Precision 3D testing solutions: Revenue from precision 3D testing solutions increased by 2.9% to HK$19.7 million for the nine months ended 31 December 2019 from HK$19.1 million for the nine months ended 31 December 2018. This increase was mainly attributable to an increase in the contract value of precision 3D testing solutions undertaken by the Group.

Precision machining solutions: For the nine months ended 31 December 2019, no revenue was derived from precision machining solution since the Group has been focusing on providing precision 3D testing solutions and did not carry out any precision machining solution projects. For the nine months ended 31 December 2018, the Group has carried out 2 projects and recorded a revenue of HK$1.7 million.

Cost of sales

Cost of sales decreased by 5.4% to HK$9.8 million for the nine months ended 31 December 2019 from HK$10.4 million for the nine months ended 31 December 2018, mainly due to the decrease in equipment costs. The reason for the decrease in equipment costs is that the number of projects providing equipment for the nine months ended 31 December 2019 is less than that for the nine months ended 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross profit margin

As a result of the foregoing, gross profit decreased by 5.5% to HK$9.9 million for the nine months ended 31 December 2019 from HK$10.4 million for the nine months ended 31 December 2018. The gross profit margin for the nine months ended 31 December 2019 is 50.1%, which was approximately equal to that for the nine months ended 31 December 2018.

Selling and marketing expenses

Selling and marketing expenses increased by 9.0% to HK$3.9 million for the nine months ended 31 December 2019 from HK$3.5 million for the nine months ended 31 December 2018. This increase was mainly attributable to an increase of HK$0.3 million in staff costs as the Group expanded its sales and marketing team.

Administrative expenses

Administrative expenses decreased by 4.0% to HK$9.1 million for the nine months ended 31 December 2019 from HK$9.5 million for the nine months ended 31 December 2018. The decrease was mainly due to the fact that the travel expenses and other preparatory expenses incurred for the preparation of the shares of the Company listing on GEM for the nine months ended 31 December 2018 were not required to be expensed during the period.

Income tax expense

The Company had an income tax expense of HK$581,000 for the nine months ended 31 December 2019. Income tax expense included the PRC income tax of Hong Kong Cheng Phong, Bow Chak and MGW Swans, calculated on a deemed profit basis. The calculation of effective tax rate was not applicable as the Group had recorded a loss before income tax of approximately HK$3.5 million.

Loss for the period

The Company recorded a loss of HK$3.5 million for the nine months ended 31 December 2019 compared to a loss of HK$3.0 million for the nine months ended 31 December 2018. The increase in loss was mainly due to the abovementioned decrease in gross profit.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Borrowings

As at 31 December 2019, the Group did not have any bank borrowings and other interest-bearing borrowings.

Contingent Liabilities

As at 31 December 2019, the Group did not have any significant contingent liabilities.

Commitments

As at 31 December 2019, the Group had the following non-cancellable operating lease commitments:

	HK$
No later than 1 year	268,000

Pledge of Assets

As at 31 December 2019, 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 2019, 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 2019, 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 2019, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND EMOLUMENT POLICIES

As at 31 December 2019, the Group had a total of 28 (2018: 28) employees, including executive directors of the Company. The Group values employees because they are pivotal to our success. To recruit, develop and retain talented employees, the Group has provided its employees competitive remuneration packages, including internal promotion opportunities and performance-based bonus. The remuneration committee of the Company shall make recommendation to its Board on the overall remuneration policy and structure relating to all Directors and senior management; review remuneration proposals of the management with reference to its Board's corporate goals and objectives; and ensure none of its Directors or any of their associates determine their own remuneration.

PRINCIPAL RISKS AND UNCERTAINTIES

Business risk

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

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

Credit risk

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

Liquidity risk

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

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. 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 2019 ("**2019 Annual Report**"). As at 31 December 2019, 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 2019:

Use of proceeds	Amount of planned use according to the 2019 Annual Report *HK$ million*	Amount used up to 31 December 2019 *HK$ million*	Remaining balance *HK$ million*	Expected time of full utilisation of the remaining balance
Establishing our own research and development centres and further research and development expenditures relating to product research and development, recruitment and provision of training for technical staff	11.9	11.7	0.2	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	5.9	0.9	March 2020
Organising seminars, participating in local and international exhibitions and developing and implementing advertising plans	3.8	3.1	0.7	March 2020
Working capital and general corporate purposes	2.5	2.2	0.3	March 2020
	25.0	22.9	2.1	

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 2019, 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	73.49%

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 2019, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, 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 2019, 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 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	73.49%
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 2019, 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 and there were no outstanding options from the date of the adoption of the Share Option Scheme to 31 December 2019.

INTERESTS IN COMPETING BUSINESS

For the nine months ended 31 December 2019, 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

For the nine months ended 31 December 2019, none of the Company or any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

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 and the non-compliance with the Standard of Dealings by Mr. Wu as disclosed in the 2019 Annual Report, the Company has complied with the applicable code provisions of the Code as set out in Appendix 15 to the GEM Listing Rules for the nine months ended 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

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, save as the non-compliance with the Standard of Dealings by Mr. Wu as disclosed in the 2019 Annual Report, each of the Directors has confirmed that he or she has complied with the required Standard of Dealings for the nine months ended 31 December 2019.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the nine months ended 31 December 2019 (for the nine months ended 31 December 2018: 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 2019 have been reviewed by the Audit Committee in a meeting held on 7 February 2020.

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

Hong Kong, 7 February 2020

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.