

ZHICHENG

TECHNOLOGY GROUP LTD.

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE : 8511

INTERIM REPORT

2020

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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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the director (collectively the “Directors” and individually a “Director”) 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.ztecgrou.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

Recorded an unaudited revenue of approximately HK\$7.2 million for the six months ended 30 September 2020, representing a decrease of approximately 43.4% as compared to the corresponding period of the previous year.

Recorded an unaudited loss attributable to the owners of the Company of HK\$4.3 million for the six months ended 30 September 2020, compared to the loss of HK\$4.1 million in the corresponding period of the previous year, which was mainly attributed to the increase in administrative expenses.

Basic and diluted losses per share for the six months ended 30 September 2020 were approximately HK1.07 cents (2019: basic and diluted losses per share approximately HK1.00 cent).

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 six months ended 30 September 2020 (the “**Reporting Period**”), together with the comparative unaudited figures for the corresponding period of 2019 as follows:

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

	Notes	For the three months ended 30 September		For the six months ended 30 September	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue	4	4,713	8,545	7,239	12,797
Cost of sales	5	(2,876)	(4,802)	(3,433)	(6,383)
Gross profit		1,837	3,743	3,806	6,414
Selling and marketing expenses	5	(1,375)	(1,499)	(2,372)	(2,718)
Administrative expenses	5	(3,244)	(4,285)	(6,413)	(7,686)
Other (losses)/income — net		367	139	305	184
Operating profit/(loss)		(2,415)	(1,902)	(4,674)	(3,806)
Finance income		(2)	6	3	14
Profit/(Loss) before income tax		(2,417)	(1,896)	(4,671)	(3,792)
Income tax expense	6	133	(270)	376	(199)
Profit/(Loss) attributable to:					
Owners of the Company		(2,284)	(2,166)	(4,295)	(3,991)
Other comprehensive income		—	—	—	—
Total comprehensive income attributable to:					
Owners of the Company		(2,284)	(2,166)	(4,295)	(3,991)
Earnings/(Losses) per share					
— Basic and diluted (<i>HK cents</i>)	8	(0.57)	(0.54)	(1.07)	(1.00)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
	Notes		
ASSETS			
Non-current assets			
Equipment	9	141	146
Intangible assets		8,737	6,048
Deferred income tax assets		529	108
		9,407	6,302
Current assets			
Trade receivables	10	19,293	35,152
Other receivables	11	10,896	2,735
Prepayments		32,618	21,802
Cash and cash equivalents		6,884	13,147
Restricted cash		178	128
		69,869	72,964
Total assets		79,276	72,964
EQUITY			
Equity attributable to owners of the Company			
Share capital	14	312	312
Other reserves		52,356	52,356
(Accumulated losses)/Retained earnings		6,949	11,244
Total equity		59,617	63,912
LIABILITIES			
Current liabilities			
Trade payables	12	4,257	5,199
Current income tax liabilities		3,836	3,661
Contract liabilities		4,451	181
Other payables	13	7,115	6,313
		19,659	15,354
Total liabilities		19,659	15,354
Total Equity and Liabilities		79,276	79,266

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserves <i>HK\$'000</i>	Foreign exchange reserves <i>HK\$'000</i>	Other reserves <i>HK\$'000</i>	(Accumulated losses)/ Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1 April 2018 (Audited)	–	1,260	163	82	301	2,955	4,761
Comprehensive income							
— Loss for the period	–	–	–	–	–	(3,511)	(3,511)
Total comprehensive income	–	–	–	–	–	(3,511)	(3,511)
Issuance of shares by capitalisation	234	(234)	–	–	–	–	–
Issuance of shares	78	64,922	–	–	–	–	65,000
Shares issuance costs	–	(14,308)	–	–	–	–	(14,308)
Balance at 30 September 2018 (Unaudited)	312	51,640	163	82	301	(556)	51,942
Balance at 1 April 2019 (Audited)	312	51,640	163	12	1,156	9,411	62,694
Comprehensive income							
— Loss for the period	–	–	–	–	–	(3,991)	(3,991)
Total comprehensive income	–	–	–	–	–	(3,991)	(3,991)
Balance at 30 September 2019 (Unaudited)	312	51,640	163	12	1,156	5,420	58,703
Balance at 1 April 2020 (Audited)	312	51,640	163	(1,908)	2,461	11,244	63,912
Comprehensive income							
— Loss for the period	–	–	–	–	–	(4,295)	(4,295)
Total comprehensive income	–	–	–	–	–	(4,295)	(4,295)
Balance at 30 September 2020 (Unaudited)	312	51,640	163	(1,908)	2,461	6,949	59,617

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Cash flow from operating activities		
Cash generated from/(used in) operations	(6,981)	6,340
Income tax refunded/(paid)	95	(1,424)
Net cash generated from/(used in) operating activities	(6,886)	4,916
Cash flows from investing activities		
Purchase of equipment	(17)	(24)
purchases of intangible assets	(1,640)	(2,523)
Net cash used in investing activities	(1,657)	(2,547)
Short-term Loan	2,280	–
Cash flows from financing activities		
Receipt of cash advances from a related party	–	–
Payment of cash advances to a related party	–	–
Payment for listing expenses	–	–
Proceeds from issuance of new shares	–	–
Net cash generated from/(used in) financing activities	2,280	–
Net increase/(decrease) in cash and cash equivalents	(6,263)	2,369
Cash and cash equivalents at beginning of the period	13,147	9,976
Exchange losses on cash and cash equivalents	–	(162)
Cash and cash equivalents at end of the period	6,884	12,183

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM 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 in the People's Republic of China (the "PRC").

These unaudited condensed consolidated interim 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 9 November 2020.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated results of the Group for the six months ended 30 September 2020 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 six months ended 30 September 2020, the accounting policies adopted in this report are consistent with those adopted in the audited financial statements for the year ended 31 March 2020, 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 standard became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting the following standard:

- HKFRS 16 Leases

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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

2.2 Changes in accounting policies *(Continued)*

(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 2020, the Group only had lease commitment no later than 1 year, which 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 2020, 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 2020 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.

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 payments 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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM 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)

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\$240,000 as at 30 September 2020, which can be exempted from the reporting obligation under HKFRS 16.

3 ESTIMATES

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing the condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2020.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4 REVENUE

Revenue by nature:

	For the three months ended 30 September		For the six months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Precision 3D scanning solutions				
— Sales of equipment	4,621	8,545	4,621	11,912
— Technical services	92	—	2,618	885
	4,713	8,545	7,239	12,797
Precision machining solutions				
— Sales of equipment	—	—	—	—
— Technical services	—	—	—	—
	—	—	—	—
Total	4,713	8,545	7,239	12,797

Revenue by type of solutions:

	For the three months ended 30 September		For the six months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Precision 3D testing solutions				
— Static 3D scanning	4,713	—	7,028	3,367
— Dynamic 3D scanning	—	8,545	211	9,430
	4,713	8,545	7,239	12,797
Precision machining solutions	—	—	—	—
Total	4,713	8,545	7,239	12,797

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

5 EXPENSES BY NATURE

	For the three months ended 30 September		For the six months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Cost of goods sold	2,612	4,499	2,761	5,616
Professional fees	929	1,195	1,786	1,842
Travelling expenses	275	960	528	1,864
Staff costs	1,044	1,429	2,125	2,861
Entertainment expenses	723	621	1,022	1,120
Lease payments	221	200	366	495
Outsourcing research and development expenses	897	1,219	1,756	2,265
Advertising and promotion fees	—	42	55	81
Office utilities	64	87	133	162
Depreciation and amortization	389	72	729	141
Auditor's remuneration				
— Audit services	28	33	62	42
Listing expenses	—	—	—	—
Other expenses	313	230	894	299
Total cost of sales, selling and marketing expenses and administrative expenses	7,495	10,587	12,217	16,788

6 INCOME TAX EXPENSE

	For the three months ended 30 September		For the six months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Current income tax				
— PRC corporate income tax	9	320	16	480
— Others	21	(220)	27	71
Deferred income tax	(163)	170	(419)	(352)
	(133)	270	(376)	199

No income tax relating to components of other comprehensive income was charged for the six months ended 30 September 2020 (2019: same).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6 INCOME TAX EXPENSE *(Continued)*

- (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. The Company has been approved for the renewal of the High and New Technology Enterprise qualification. The renewal will start in September 2020 and will continue to enjoy the corporate income tax rate of 15% until September 2023.
- (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 six months ended 30 September 2020 (2019: 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.

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 six months ended 30 September 2020.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6 INCOME TAX EXPENSE *(Continued)*

- (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 six months ended 30 September 2020.

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.

7 DIVIDEND

The directors did not recommend the payment of any interim dividend for the six months ended 30 September 2020 (2019: nil).

8 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 six months ended 30 September 2020 and 2019.

	For the three months ended 30 September		For the six months ended 30 September	
	2020 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2019 (Unaudited)
Profit for the period attributable to owners of the Company (<i>HK\$'000</i>)	(2,284)	(2,166)	(4,295)	(3,991)
Weighted average number of ordinary shares in issue (<i>thousand of shares</i>)	400,000	400,000	400,000	400,000
Basic earnings/(losses) per share (<i>HK cents</i>)	(0.5710)	(0.5415)	(1.0738)	(0.9978)

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 six months ended 30 September 2020 (2019: same).

9 EQUIPMENT

For the six months ended 30 September 2020, the Group acquired equipment at a cost of HK\$17,000 (for the six months ended 30 September 2019: HK\$24,000). For the six months ended 30 September 2020, the Group did not dispose of or write off equipment (for the six months ended 30 September 2019: nil).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

10 TRADE RECEIVABLES

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Trade receivables	19,293	35,152

(a) Aging analysis of trade receivables based on invoice date is as follows:

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Within 30 days	5,130	26,327
1 to 3 months	–	–
3 to 6 months	887	5,537
6 months to 1 year	11,567	876
1 to 2 years	1,708	2,412
Total	19,293	35,152

The majority of the Group's sales are made on letter of credit. The remaining sales are usually with credit terms of 30 days.

(b) As at 30 September 2020, trade receivables of HK\$8.911 million were past due but not impaired (31 March 2020: HK\$8.151 million). These amounts related to a number of independent customers for whom there was no significant financial difficulty and based on past experience, the overdue amounts could be recovered. The aging analysis of these trade receivables is as follows:

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Within 30 days	–	851
1 to 6 months	8,016	4,791
6 months to 1 year	–	876
1 to 2 years	895	1,633
Total	8,911	8,151

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

11 OTHER RECEIVABLES

	30 September 2020 <i>HK\$'000</i> (Unaudited)	31 March 2020 <i>HK\$'000</i> (Audited)
Tendering deposits	340	639
Advances to employees	9,849	1,531
Others	707	565
	10,896	2,735

12 TRADE PAYABLES

The aging analysis of trade payables is as follows:

	30 September 2020 <i>HK\$'000</i> (Unaudited)	31 March 2020 <i>HK\$'000</i> (Audited)
Trade payables	4,257	5,199

	30 September 2020 <i>HK\$'000</i> (Unaudited)	31 March 2020 <i>HK\$'000</i> (Audited)
Within 30 days	979	5,099
1 to 3 months	–	–
1 to 6 months	2,983	–
6 months to 1 year	295	–
1 to 2 years	–	100
Over 2 years	–	–
Total	4,257	5,199

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

13 OTHER PAYABLES

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Accrued listing expenses	–	–
Other accrued expenses	5,211	2,388
Payroll payables	883	838
Other tax liabilities	1,021	3,087
	7,115	6,313

14 SHARE CAPITAL

	Number of shares		Share capital			
	As at 30 September 2020	As at 31 March 2020	As at 30 September 2020		As at 31 March 2020	
			US\$	HK\$	US\$	HK\$
Authorised:						
Ordinary share of US\$0.0001 each:	5,000,000,000	5,000,000,000	500,000	3,905,000	500,000	3,905,000
	For the six months ended 30 September 2020	For the year ended 31 March 2020	For the six months ended 30 September 2020		For the year ended 31 March 2020	
			US\$	HK\$	US\$	HK\$
Issued and fully paid:	400,000,000	400,000,000	40,000	312,400	40,000	312,400

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 six months ended 30 September 2020, 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 period, 2 new precision 3D testing projects were obtained, and 1 existing project was completed by the Group. Thus, the Group had 10 projects on 30 September 2020. 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 30 September 2020, the Group has 16 registered patents, including 6 invention patents and 10 utility model patents as well as 8 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 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 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.

Affected by the global epidemic situation in 2020, the Company could not carry out its business in the first half of the year, which affected the Group’s sales performance and payment collection. Since June 2020, with the epidemic situation gradually under control in China, the Company actively expanded its business, and its performance began to pick up in the third quarter of 2020, signing approximately RMB5 million sales contracts. The epidemic has no impact on the Company’s main business scope, but has a lagging impact on business performance.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the six months ended 30 September 2020, the Group recorded revenue of approximately HK\$7,239 million, representing a decrease of 43.0% comparing with that of approximately HK\$12,797 million for the six months ended 30 September 2019. Set out below is the revenue breakdown of the Group for the six months ended 30 September 2020 and the six months ended 30 September 2019:

	Six months ended 30 September 2020		2019	
	Revenue HK\$'000	% of Revenue (%)	Revenue HK\$'000	% of Revenue (%)
Precision 3D testing solutions				
Static 3D scanning	7,028	97%	3,367	26.3
Dynamic 3D scanning	211	3%	9,430	73.7
Overall precision 3D testing solutions	7,239	100	12,797	100
Precision machining solutions	–	–	–	–
All solutions	7,239	100	12,797	100

Precision 3D testing solutions: Revenue from precision 3D testing solutions decreased by 43% to HK\$7.23 million for the six months ended 30 September 2020 from HK\$12.79 million for the six months ended 30 September 2019. This decrease was mainly attributable to a decrease in the contract value of precision 3D testing solutions undertaken by the Group. Two reasons lead to the decrease of sales revenue. One was that due to the continuous impact of the epidemic, the Company's sales personnel were hindered from business travelling for about 3 months, and customers were not fully operational, resulting in sales not fully recovered. Until September 2020, some potential project contracts were signed. The second, for the six months ended 30 September 2020, in accordance with the Group's project implementation schedule, no project providing imported or home-made modules was implemented, and accordingly the revenue was totally generated from project related to provision of technical services of which the contract value was relatively low. While for the six months ended 30 September 2019, the revenue was mainly derived from a project providing imported modules of which the contract value was relatively high.

Cost of sales

Cost of sales decreased by 46% to HK\$3.43 million for the six months ended 30 September 2020 from HK\$6.38 million for the six months ended 30 September 2019 mainly due to the decrease in equipment costs. The reason for the decrease in equipment costs is that the number of projects providing equipment in this period is relatively low.

Gross profit and gross profit margin

As a result of the foregoing, gross profit decreased by 40% to HK\$3.80 million for the six months ended 30 September 2020 from HK\$6.41 million for the six months ended 30 September 2019. The decrease is due to the number of projects providing equipment in this period is relatively low. Contribution from provision of technical services, the Company acquired the high gross profit margin.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and marketing expenses

Selling and marketing expenses decreased to HK\$2.37 million for the six months ended 30 September 2020 from HK\$2.71 million for the six months ended 30 September 2019. The decrease was mainly attributable to a decrease of HK\$0.3 million in travelling expenses as the Group's selling and marketing activities were affected by the pandemic.

Administrative expenses

Administrative expenses decreased by 17% to HK\$6.41 million for the six months ended 30 September 2020 from HK\$7.68 million for the six months ended 30 September 2019. The decrease was mainly due a decrease of HK\$0.6 million in research and development expenditure.

Income tax expense

The Company had an income tax credit of HK\$199,000 for the six months ended 30 September 2019. For the six months ended 30 September 2020, 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\$4.6 million.

Loss

The Company recorded a loss of HK\$4.29 million for the six months ended 30 September 2020 compared to a loss of HK\$4 million for the six months ended 30 September 2019. The increase in loss was mainly due to the number of projects providing equipment be decreased.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Borrowings

As at 30 September 2020, the Group had one year credit loan of HK\$2.28 million from ICBC bank since 4 September 2020, annual interest rate is 4.08%. The gearing ratio (calculated by dividing total debt by total equity) as at 30 September 2020 was 33.0%

Contingent Liabilities

As at 30 September 2020, the Group did not have any significant contingent liabilities.

Commitments

As at 30 September 2020, the Group had the following non-cancellable operating lease commitments:

	<i>HK\$'000</i>
No later than 1 year	240

Pledge of Assets

As at 30 September 2020, the Group did not have any pledge on its assets.

MANAGEMENT DISCUSSION AND ANALYSIS

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 30 September 2020, 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 30 September 2020, the Group did not have any plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the six months ended 30 September 2020, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

EMPLOYEES AND EMOLUMENT POLICIES

As at 30 September 2020, the Group had a total of 24 (2019: 28) employees, including executive directors of the Group Companies. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

USE OF PROCEEDS

As at 30 September 2020, all of the funds raised from the Listing have been fully utilised in the manner as described in the section headed "Use of Proceeds" of the annual report of the Company dated 15 June 2020.

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

As at 30 September 2020, 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			Percentage of issued share capital
		Ordinary Share	Shares option	Total	
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.

MANAGEMENT DISCUSSION AND ANALYSIS

(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 30 September 2020, 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.

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

As at 30 September 2020, 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	73.49%

Save as disclosed above, as at 30 September 2020, 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 30 September 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERESTS IN COMPETING BUSINESS

For the six months ended 30 September 2020, 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 six months ended 30 September 2020, 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, 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 six months ended 30 September 2020.

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 for the six months ended 30 September 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 September 2020 (for the six months ended 30 September 2019: nil).

EVENTS AFTER THE REPORTING PERIOD

No significant events have occurred since 30 September 2020.

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 interim results of the Group for the six months ended 30 September 2020 have been reviewed by the Audit Committee in a meeting held on 9 November 2020.

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

Hong Kong, 9 November 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.