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Zhicheng Technology Group Ltd.

志承科技集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8511)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 JUNE 2021

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

*This announcement, 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 announcement 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 announcement misleading.*

HIGHLIGHTS

The Company recorded an unaudited revenue of approximately HK\$6.6 million for the three months ended 30 June 2021, representing an increase of approximately 161.1% 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\$2.1 million for the three months ended 30 June 2021, compared to the loss of HK\$2.0 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 three months ended 30 June 2021 were approximately HK0.52 cents (2020: basic and diluted losses per share approximately HK0.50 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 three months ended 30 June 2021 (the “**Reporting Period**”), together with the comparative unaudited figures for the corresponding period of 2020 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 (the “**Audit Committee**”).

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the three months ended 30 June	
		2021	2020
	Note	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Revenue	3	6,596	2,526
Cost of sales		<u>(4,447)</u>	<u>(557)</u>
Gross profit		2,149	1,969
Selling and marketing expenses		(1,078)	(997)
Administrative expenses		(2,674)	(3,169)
Other (losses)/gains – net		<u>111</u>	<u>(62)</u>
Operating loss		(1,492)	(2,259)
Finance income		<u>1</u>	<u>5</u>
Loss before income tax		(1,491)	(2,254)
Income tax expense	4	<u>(604)</u>	<u>243</u>
Loss attributable to:			
Owners of the Company		<u>(2,095)</u>	<u>(2,011)</u>
Other comprehensive income		<u>–</u>	<u>–</u>
Total comprehensive income attributable to:			
Owners of the Company		<u>(2,095)</u>	<u>(2,011)</u>
Losses per share			
– Basic and diluted (<i>HK cents</i>)	6	<u>(0.52)</u>	<u>(0.50)</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <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 2020							
(Audited)	312	51,640	163	(1,908)	2,461	11,244	63,912
Comprehensive income							
– Loss for the period	–	–	–	–	–	(2,011)	(2,011)
Total comprehensive income	–	–	–	–	–	(2,011)	(2,011)
Balance at 30 June 2020							
(Unaudited)	<u>312</u>	<u>51,640</u>	<u>163</u>	<u>(1,908)</u>	<u>2,461</u>	<u>9,233</u>	<u>61,901</u>
Balance at 1 April 2021							
(Audited)	312	51,640	163	774	2,461	7,905	63,255
Comprehensive income							
– Loss for the period	–	–	–	–	–	(2,095)	(2,095)
Total comprehensive income	–	–	–	–	–	(2,095)	(2,095)
Balance at 30 June 2021							
(Unaudited)	<u>312</u>	<u>51,640</u>	<u>163</u>	<u>774</u>	<u>2,461</u>	<u>5,810</u>	<u>61,160</u>

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 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 9 August 2021.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated results of the Group for the three months ended 30 June 2021 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 adopted in preparing the unaudited condensed consolidated results for the three months ended 30 June 2021 are consistent with those adopted in the audited financial statements for the year ended 31 March 2021, 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. The adoption of these new and revised HKFRSs has had no 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.

3 REVENUE

Revenue by nature:

	For the three months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Precision 3D testing solutions		
– Sales of equipment	4,853	–
– Technical services	1,743	2,526
Total	6,596	2,526

Revenue by type of solutions:

	For the three months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Precision 3D testing solutions		
– Static 3D scanning	6,596	2,315
– Dynamic 3D scanning	–	211
Total	6,596	2,526

4 INCOME TAX EXPENSE

	For the three months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current income tax		
– PRC corporate income tax	604	7
– Others	–	6
Deferred income tax	–	(256)
	604	(243)

No income tax relating to components of other comprehensive income was charged for the three months ended 30 June 2021 (2020: 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 three years. In 2020, Quick Tech was continued to be granted the preferential tax treatment through an application of renewal, and accordingly, tax rate of 15% has been applied when considering the current income tax for the three months ended 30 June 2021 and the deferred income tax. PRC corporate income tax was about HK\$0.6 million mainly due to Quick Tech with about HK\$4.0 million net profit.

- (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 the British Virgin Islands (the “**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 three months ended 30 June 2021 (2020: same).
- (c) The statutory Hong Kong profits tax rate is 16.5%.

For the three months ended 30 June 2021, Hong Kong Cheng Phong and Bow Chak recorded losses in their financial statements and therefore were not subject to Hong Kong profits tax.

- (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 three months ended 30 June 2021.

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

5 DIVIDEND

The Directors did not recommend the payment of any interim dividend for the three months ended 30 June 2021 (2020: nil).

6 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 three months ended 30 June 2021 and 2020.

	For the three months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Loss for the period attributable to owners of the Company (HK\$’000)	(2,095)	(2,011)
Weighted average number of ordinary shares in issue (thousand of shares)	400,000	400,000
Basic losses per share (HK cents)	(0.52)	(0.50)

Diluted losses per share presented is the same as the basic losses per share as there were no potentially dilutive ordinary shares issued during the three months ended 30 June 2021 (2020: 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 the PRC. 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 after sales services such as technical support and training.

For the three months ended 30 June 2021, the Group continued to devote great efforts to expanding the market scopes, approaching new customers in various industries and regions, and maintaining the productive relationships with existing customers. Benefited from its sales efforts, the Group obtained a total of 3 new projects. 3 new projects together with 2 projects which were carried forward from prior years, were completed during the period. As at 30 June 2021, the Group had 7 on-going projects, which were all precision 3D testing solutions projects.

The Group had been persisting in developing new technology, including new auxiliary tools design and relevant software applications. As of 30 June 2021, the Group has 16 registered patents, including 6 invention patents and 10 utility model patents as well, and 8 pending invention patents in the registrations.

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, in order to enhance competitiveness and form its own core technology, the Group focuses on the investment in research and development (“R&D”). Through two years of technical precipitation, the Company has formed its own intangible assets such as scanning detection software, data identification and analysis system software. Affected by the global epidemic situation in 2020, the Company could not fully carry out its business. Since June 2020, with the epidemic situation gradually under control in the PRC, the Company actively expanded its business, and its performance began to pick up in the third quarter of 2020. The epidemic has no impact on the Company’s main business scope, but has a lagging impact on business performance. As a result, the Group’s operating performance for the year ended 31 March 2021 and for the three months ended 30 June 2021 were not significantly affected by the epidemic. Taking into account the uncertainty of the duration of the epidemic and the implementation of the preventive measures against the spread of the epidemic, the Group’s future operating performance may be affected by changes in the future economic conditions and the extent of the impact cannot be predicted as at the reporting date. The Group will continue to keep track of the epidemic development and react proactively to its possible impact on the performance of the Group. By virtue of the technological edges, the Group is expecting to continuously promote its integrated smart manufacturing solutions, understand the industrial evolution and further consolidate the market position and customer confidence.

FINANCIAL REVIEW

Revenue

For the three months ended 30 June 2021, the Group recorded revenue of approximately HK\$6.6 million, representing an increase of 161.1% comparing with that of approximately HK\$2.5 million for the three months ended 30 June 2020. Set out below is the revenue breakdown of the Group for the three months ended 30 June 2021 and the three months ended 30 June 2020:

	For the three months ended 30 June			
	2021		2020	
	Revenue HK\$'000	% of Revenue (%)	Revenue HK\$'000	% of Revenue (%)
Precision 3D testing solutions				
Static 3D scanning	6,596	100	2,315	91.6
Dynamic 3D scanning	—	—	211	8.4
All solutions	<u>6,596</u>	<u>100</u>	<u>2,526</u>	<u>100</u>

Precision 3D testing solutions: Revenue from precision 3D testing solutions increased by 161.1% to HK\$6.6 million for the three months ended 30 June 2021 from HK\$2.5 million for the three months ended 30 June 2020. This increase was mainly attributable to an increase in the contract value of precision 3D testing solutions project undertaken by the Group. For the three months ended 30 June 2021, the Company added one new sales contract about HK\$4.5 million.

Cost of sales

Cost of sales increased by 698.4% to HK\$4.4 million for the three months ended 30 June 2021 from HK\$0.5 million for the three months ended 30 June 2020, mainly due to the increase in equipment costs for the solutions projects. For the three months ended 30 June 2021, a new project providing intelligent identification was implemented with relatively high equipment costs with about HK\$4.2 million. While for three months ended 30 June 2020, no equipment cost was incurred since all the implemented projects were related to provision of technical services.

Gross profit and gross profit margin

As a result of the foregoing, gross profit increased by 9.1% to HK\$2.1 million for the three months ended 30 June 2021 from HK\$2.0 million for the three months ended 30 June 2020. The gross profit margin decreased to 32.6% for the three months ended 30 June 2021 from 77.9% for the three months ended 30 June 2020, mainly due to the fact that all the projects implemented for the three months ended 30 June 2020 were related to provision of technical services normally with relatively high gross profit margin.

Selling and marketing expenses

Selling and marketing expenses remained stable. Selling and marketing expenses increased by 8.1% to HK\$1.1 million for the three months ended 30 June 2021 from HK\$1.0 million for the three months ended 30 June 2020.

Administrative expenses

Administrative expenses decreased by 15.6% to HK\$2.7 million for the three months ended 30 June 2021 from HK\$3.2 million for the three months ended 30 June 2020. The decrease was mainly due to a decrease of R&D expenditure.

Income tax expense

The Company had an income tax expense of HK\$0.6 million for the three months ended 30 June 2021 (2020: HK\$0.2 million). The increase was mainly due to the increase in revenue.

Loss for the period

The Company recorded a loss of HK\$2.1 million for the three months ended 30 June 2021 compared to a loss of HK\$2.0 million for the three months ended 30 June 2020. The increase in loss was mainly due to the above mentioned decrease in gross profit.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Borrowings

As at 30 June 2021, the Group had a one-year credit loan of HK\$2.72 million from Industrial and Commercial Bank of China since 4 September 2020 and annual interest rate is 4.08%. It also had a two-year credit loan of HK\$5.57 million from Bank of China since 4 January 2021 and annual interest rate is 3.85%. Annual weighted average effective interest rates are 3.97%.

Contingent Liabilities

As at 30 June 2021, the Group did not have any significant contingent liabilities.

Capital Commitments

As at 30 June 2021, the Group did not have any capital commitments.

Pledge of Assets

As at 30 June 2021, the Group did not have any pledge on its assets.

Exchange Rate Risk Exposure

For the operating entities of the Group that were incorporated in Hong Kong and the BVI, 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 (“HK\$”) 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 any forward exchange contract to hedge its exposure to foreign exchange risk.

SIGNIFICANT INVESTMENTS

As at 30 June 2021, the Group did not hold any significant investments.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 30 June 2021, the Group did not have any plans for material investments.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the three months ended 30 June 2021, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

EMPLOYEES AND EMOLUMENT POLICIES

As at 30 June 2021, the Group had a total of 23 (2020: 25) 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 is given 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 R&D and introduce new solution designs to cater its customers' requirements. Therefore, the Group intends to increase its R&D efforts, establish its own R&D 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.

INTERESTS IN COMPETING BUSINESS

For the three months ended 30 June 2021, 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 three months ended 30 June 2021, none of the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the Reporting Period, the Company had not entered into any connected transaction or continuing connected transactions which are 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 three months ended 30 June 2021.

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 three months ended 30 June 2021.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the three months ended 30 June 2021 (for the three months ended 30 June 2020: nil).

AUDIT COMMITTEE

The quarterly results of the Group for the three months ended 30 June 2021 and this announcement have been reviewed by the Audit Committee in a meeting held on 9 August 2021.

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

Hong Kong, 9 August 2021

As at the date of this announcement, 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.

This announcement 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.

* *For identification purposes only*