



ZHI CHENG HOLDINGS LIMITED

智城控股有限公司*

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code: 8130)

* For identification only

First Quarterly Report

2018

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

GEM has been positioned as a market designed to accommodate 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. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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

UNAUDITED QUARTERLY RESULTS

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	For the three months ended 30 June	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Revenue	3	18,026	8,391
Cost of sales		(16,352)	(6,209)
Gross profit		1,674	2,182
Other income and gains	4	192	2,405
Administrative expenses		(10,911)	(20,934)
Loss from operations	5	(9,045)	(16,347)
Loss on disposal of property, plant and equipment		(97)	(159)
Gain/(loss) on disposal of financial assets at fair value through profit and loss		1	(6)
Loss on change in fair value of financial assets at fair value through profit or loss		-	(719)
Finance costs	6	(771)	(1,507)
Loss before taxation		(9,912)	(18,738)
Income tax expense	7	(31)	(14)
Loss for the period		(9,943)	(18,752)
Loss for the period attributable to:			
owners of the Company		(9,512)	(18,722)
non-controlling interests		(431)	(30)
		(9,943)	(18,752)
Loss per share	8	HK cents	HK cents
Basic and diluted		(0.29)	(0.67)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the three months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss for the period	(9,943)	(18,752)
Other comprehensive (expense)/income for the period		
Exchange differences on translation of financial statements of overseas subsidiaries	<u>(40,308)</u>	<u>2,919</u>
Other comprehensive (expense)/income for the period, net of income tax	<u>(40,308)</u>	<u>2,919</u>
Total comprehensive expense for the period	<u>(50,251)</u>	<u>(15,833)</u>
Total comprehensive (expense)/income for the period attributable to:		
owners of the Company	<u>(48,317)</u>	<u>(16,000)</u>
non-controlling interests	<u>(1,934)</u>	<u>167</u>
	<u>(50,251)</u>	<u>(15,833)</u>

CHANGES IN EQUITY

	Equity attributable to equity shareholders of the Company									
	Share-based					Non-				
	Issued Capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	compensation reserve (Unaudited) HK\$'000	Statutory Reserve (Unaudited) HK\$'000	Translation reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	controlling interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 April 2017	27,773	1,685,889	325,798	15,635	1,318	(2,597)	(1,636,564)	417,252	5,033	422,285
Comprehensive expense for the period	-	-	-	-	-	-	(18,722)	(18,722)	(30)	(18,752)
Other comprehensive income for the period	-	-	-	-	-	2,722	-	2,722	197	2,919
Total comprehensive income/ (expense) for the period	-	-	-	-	-	2,722	(18,722)	(16,000)	167	(15,833)
At 30 June 2017	27,773	1,685,889	325,798	15,635	1,318	125	(1,655,286)	401,252	5,200	406,452
At 1 April 2018	32,409	1,770,215	325,798	11,023	1,318	38,217	(1,694,297)	484,683	18,316	502,999
Comprehensive expense for the period	-	-	-	-	-	-	(9,512)	(9,512)	(431)	(9,943)
Other comprehensive expense for the period	-	-	-	-	-	(38,805)	-	(38,805)	(1,503)	(40,308)
Total comprehensive expense for the period	-	-	-	-	-	(38,805)	(9,512)	(48,317)	(1,934)	(50,251)
At 30 June 2018	32,409	1,770,215	325,798	11,023	1,318	(588)	(1,703,809)	436,366	16,382	452,748

NOTES

1. GENERAL INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 9 November 2001 and continued in Bermuda on 20 April 2009. The Company's shares have been listed on the GEM of The Stock Exchange since 26 August 2002.

The registered office and principal place of business of the Company are located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and 19/F, Prosperity Tower, 39 Queen's Road Central, Central, Hong Kong respectively.

The Unaudited Consolidated Results are presented in Hong Kong dollars ("HK\$"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand (HK\$'000) except otherwise indicated.

The Company's principal activity is investment holding and the principal activities of its subsidiaries are provision of financial leasing and other financial services, advertising and media related services and related operations.

2. BASIS OF PREPARATION AND CONSOLIDATION

The Unaudited Consolidated Results have been prepared in accordance with the applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") and with Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Unaudited Consolidated Results should be read in conjunction with the annual financial statements of the Group for the year ended 31 March 2018.

The accounting policies and basis of preparation adopted in the preparation of the Unaudited Consolidated Results are consistent with those adopted in the annual financial statements for the year ended 31 March 2018.

The Group has applied new and amended standards and interpretations of HKFRSs which are mandatory during the current accounting and relevant to its operations. The application of such new and amended standards and interpretations does not have material impact on the Unaudited Consolidated Results and does not result in substantial changes to the Group's accounting policies.

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective but the Directors are in the process of assessing their impact on the results of operation and financial position of the Group.

3. REVENUE

	For the three months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Financial leasing and other financial services	895	930
Provision of advertising and media related services	17,131	7,461
	<u>18,026</u>	<u>8,391</u>

4. OTHER INCOME AND GAINS

	For the three months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Bank interest income	-	7
Interest income on loan to an independent third party	-	420
Management fee income	16	314
Other income	176	1,664
	<u>192</u>	<u>2,405</u>

5. LOSS FROM OPERATIONS

	For the three months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss from operations is arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	373	814
Net foreign exchange gain	(28)	(14)
Staff costs including directors' emoluments	4,280	11,715
	<u>4,280</u>	<u>11,715</u>

6. FINANCE COSTS

	For the three months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on corporate bond	-	298
Interest on other borrowing	771	1,028
Hire purchase charges	-	181
	<u>771</u>	<u>1,507</u>

7. INCOME TAX EXPENSE

- (i) No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits in Hong Kong or the estimated assessable profit was wholly absorbed by tax losses brought forward for the three months ended 30 June 2018 (2017: Nil).
- (ii) PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both periods. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions (2017: Nil).
- (iii) The Group had no significant unprovided deferred tax assets and liabilities at 30 June 2018 (2017: Nil).

8. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to owners of the Company for the three months ended 30 June 2018 of approximately HK\$9.5 million (2017: HK\$18.7 million) and the weighted average of 3,240,859,951 shares in issue during the three months ended 30 June 2018 (2017: 2,777,252,599 shares).

For the three months ended 30 June 2018 and 2017, diluted loss per share was not presented as the exercise of share options would have anti-dilutive effect.

MANAGEMENT DISCUSSION AND ANALYSIS

Dividend

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

Business Review

Advertising and media related services

During the period under review, the revenue contributed by such segment was approximately HK\$17.1 million (2017: HK\$7.5 million) from advertising and media services projects in Hong Kong and the PRC. The increase was mainly due to the fact that the Group started to operate online advertisement business during the period.

Provision of Financial Leasing and other Financial Services

During the period under review, the revenue contributed by such segment was approximately HK\$0.9 million (2017: HK\$0.9 million) from other financial services and financial leasing in the PRC. The Group exercised tighten credit and cost control measures during the period.

Financial Review

For the period under review, the revenue of the Group from continuing operations for the three months ended 30 June 2018 was approximately HK\$18.0 million (2017: HK\$8.4 million); of which approximately HK\$17.1 million (2017: HK\$7.5 million) was generated from provision of advertising and media related services; approximately HK\$0.9 million (2017: HK\$0.9 million) was generated from financial leasing business, representing an increase of approximately 114.8% as compared with the period ended 30 June 2017.

Loss attributable to owners of the Company for the three months ended 30 June 2018 amounted to approximately HK\$9.5 million (2017: HK\$18.7 million). The decrease in loss was mainly attributed to a decrease in administrative expenses.

Outlook

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

OTHER INFORMATION

Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debenture of the Company and its Associated Corporations

As at 30 June 2018, the following Directors, chief executives and supervisors of the Company had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance ("SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed, to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange:

Long positions in ordinary shares of HK\$0.01 each of the Company

Name of director	Personal Interest	Family Interest	Total Interest	Percentage of the Company's issued share capital
Mr. Wu Xiaoming	508,000,000 (Note (i))	-	508,000,000	15.67%
Mr. Zhang Zihong	166,000,000	-	166,000,000	5.12%
Mr. Zhang Xiongfeng	149,549,900	2,120,000 (Note (ii))	151,669,900	4.67%

Note

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

OTHER INFORMATION (Continued)

Share Option Scheme

The Company adopted a new share option scheme (the “New Share Option Scheme”) pursuant to a resolution passed at the annual general meeting of the Company on 25 September 2012. The principal terms of the New Share Option Scheme have been set out in note 41 to the financial statements as included in the annual report of the Company for the year ended 31 March 2018.

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

Date of grant	Category of eligible persons	Exercise price	Exercise period	Outstanding at 1/4/2017	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Outstanding at 30/6/2017
10/3/2016	Consultants	HK\$0.339	10/3/2016 to 9/3/2019	20,820,000	-	-	-	-	20,820,000
13/1/2017	Consultants	HK\$0.275	13/1/2017 to 12/1/2020	61,600,000	-	-	-	-	61,600,000
				<u>82,420,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>82,420,000</u>

Directors’ and Chief Executives’ Rights to Acquire Shares or Debentures

At 30 June 2018, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate, and none of the directors and chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

Substantial Shareholders

At 30 June 2018, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that the following shareholder had an interest of 5% or more in the issued share capital of the Company:

OTHER INFORMATION *(Continued)*

Long position in ordinary shares of HK\$0.01 each of the Company

Name of shareholder	Capacity	Interest in Shares	Percentage of the Company's issued share capital
China Smartpay Group Holdings Limited	Beneficial owner	508,000,000	15.67%
Mr. Zhang Zihong	Beneficial owner	166,000,000	5.12%

Save as disclosed above, at 30 June 2018, the Company has not been notified by any persons (other than the directors and chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company which were to be recorded in the register required to be kept under Section 336 of the SFO and/or who were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

Competing Interest

At 30 June 2018, none of the directors, the substantial shareholders nor their respective associates had an interest in any business which competes or may compete with the business of the Group pursuant to Rule 11.04 of the GEM Listing Rules.

Purchase, Sale or Redemption of Listed Securities of the Company

The Company has not redeemed any of its listed securities during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the three months ended 30 June 2018.

Corporate Governance

Save as disclosed below, the Company complied with Code of Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules for the three months ended 30 June 2018.

Under the Code provision A.4.1, all the non-executive directors should be appointed for a specific term, subject to re-election. The term of office for non-executive directors is subject to retirement from office by rotation and is eligible for re-election in accordance with the provisions of the Company's bye-laws. At each annual general meeting, one-third of the directors for the time being, (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. As such, the Company considers that such provisions are sufficient to meet the underlying objective of this code provision.

OTHER INFORMATION *(Continued)*

Code of Conduct Regarding Securities Transactions by Directors

During the three months ended 30 June 2018, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries of all Directors, all the Directors confirmed they have complied with the required standards of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company.

Audit Committee

The Company has established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee comprises three independent non-executive directors namely, Mr. Law Yui Lun, Dr. Zhang Wei and Dr. Li Zhan. The audit committee has reviewed the Group's unaudited consolidated financial statements for the three months ended 30 June 2018.

Board of Directors

At the date of this report, the executive directors are Mr. Wu Xiaoming, Mr. Zhang Zihong; the non-executive director is Mr. Zhang Xiongfeng; the independent non-executive directors are Dr. Zhang Wei, Dr. Li Zhan and Mr. Law Yui Lun.

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

Hong Kong, 14 August 2018