中關村科技租賃股份有限公司

ZHONGGUANCUN SCIENCE-TECH LEASING CO., LTD.

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1601)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2022

FINANCIAL HIGHLIGHTS

- For the six months ended June 30, 2022, the revenue amounted to approximately RMB362.6 million, representing an increase of approximately 17.5% as compared with that of approximately RMB308.7 million for the corresponding period of 2021.

- For the six months ended June 30, 2022, the profit before taxation amounted to approximately RMB149.3 million, representing an increase of approximately 15.5% as compared with that of approximately RMB129.3 million for the corresponding period of 2021.

- For the six months ended June 30, 2022, the profit amounted to approximately RMB111.9 million, representing an increase of approximately 15.5% as compared with that of approximately RMB96.9 million for the corresponding period of 2021.

- As of June 30, 2022, the total assets amounted to approximately RMB9,495.4 million, representing an increase of approximately 0.7% as compared with that of approximately RMB9,428.6 million as of December 31, 2021.

- As of June 30, 2022, the total shareholders' equity amounted to approximately RMB2,105.9 million, representing an increase of approximately 2.5% as compared with that of approximately RMB2,054.1 million as of December 31, 2021.

- For the six months ended June 30, 2022, the return on average equity was 10.8%.

- For the six months ended June 30, 2022, the return on average assets was 2.4%.

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Zhongguancun Science-Tech Leasing Co., Ltd. (中關村科技租賃股份有限公司) (the "**Company**") is pleased to announce that the unaudited consolidated interim results of the Company and its consolidated structured entities (together, the "**Group**" or "**We**") for the six months ended June 30, 2022 (the "**Reporting Period**") with the comparative figures for the corresponding period or the end of 2021 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended June 30, 2022 – unaudited
*(Expressed in Renminbi ("**RMB**"))*

		Six months ended June 30,	
		2022	2021
	Note	***RMB'000***	*RMB'000*
Interest income		**299,304**	253,304
Advisory fee income		**63,255**	55,346
Revenue	*3*	**362,559**	308,650
Other net income	*4*	**6,803**	6,386
Interest expense	*5*	**(133,176)**	(116,637)
Operating expense	*6*	**(58,957)**	(53,505)
Impairment losses charged	*7*	**(26,983)**	(21,388)
Share of (losses)/gains of associates		**(925)**	5,805
Net foreign exchange gains/(losses)		**22**	(17)
Profit before taxation		**149,343**	129,294
Income tax expense	*8*	**(37,489)**	(32,430)
Profit for the period		**111,854**	96,864
Attributable to:			
Equity shareholders of the Company		**111,854**	96,864
Profit for the period		**111,854**	96,864
Basic and diluted earnings per share *(in RMB)*	*9*	**0.08**	0.07

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2022 – unaudited

(Expressed in RMB)

	Six months ended June 30,	
	2022	2021
	RMB'000	*RMB'000*
Profit for the period	**111,854**	96,864
Other comprehensive income for the period	**–**	–
Total comprehensive income for the period	**111,854**	96,864
Attributable to:		
Equity shareholders of the Company	**111,854**	96,864
Total comprehensive income for the period	**111,854**	96,864

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2022 – unaudited

(Expressed in RMB)

	Note	**June 30, 2022** *RMB'000*	December 31, 2021 *RMB'000*
Non-current assets			
Property and equipment	*10*	**35,628**	42,265
Intangible assets		**12,640**	13,574
Loans and receivables	*11*	**3,887,492**	3,778,745
Financial assets at fair value through other comprehensive income		**11,986**	11,986
Financial assets at fair value through profit or loss		**1,000**	1,000
Interest in associates		**106,273**	116,219
Other assets	*12*	**451**	634
Deferred tax assets	*13(b)*	**67,087**	66,638
		4,122,557	4,031,061
Current assets			
Loans and receivables	*11*	**4,873,750**	4,694,087
Other assets	*12*	**27,206**	34,081
Pledged and restricted deposits		**1,838**	19,231
Cash and cash equivalents	*14*	**470,061**	650,163
		5,372,855	5,397,562
Current liabilities			
Borrowings	*15*	**3,935,092**	2,831,819
Income tax payable	*13(a)*	**12,386**	32,144
Trade and other liabilities	*16*	**1,350,033**	1,073,230
		5,297,511	3,937,193
Net current assets		**75,344**	1,460,369
Total assets less current liabilities		**4,197,901**	5,491,430

	Note	June 30, 2022 RMB'000	December 31, 2021 RMB'000
Non-current liabilities			
Borrowings	*15*	**1,133,477**	2,539,257
Trade and other liabilities	*16*	**958,489**	898,092
		2,091,966	3,437,349
NET ASSETS		**2,105,935**	2,054,081
CAPITAL AND RESERVES	*17*		
Share capital		**1,333,334**	1,333,334
Reserves		**772,601**	720,747
Total equity attributable to equity shareholders of the Company		**2,105,935**	2,054,081
TOTAL EQUITY		**2,105,935**	2,054,081

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2022 – unaudited
(Expressed in RMB)

		Attributable to equity shareholders of the Company						
	Note	Share capital *RMB'000*	Capital reserve *RMB'000*	Surplus reserve *RMB'000*	Fair value reserve *RMB'000*	General reserve *RMB'000*	Retained profits *RMB'000*	Total equity *RMB'000*
Balance at January 1, 2021		1,333,334	331,149	29,936	1,610	110,470	109,316	1,915,815
Changes in equity for the six months ended June 30, 2021:								
Profit for the period		–	–	–	–	–	96,864	96,864
Total comprehensive income		–	–	–	–	–	96,864	96,864
Dividends approved in respect of the previous year	*17(d)*	–	–	–	–	–	(58,000)	(58,000)
Balance at June 30, 2021		1,333,334	331,149	29,936	1,610	110,470	148,180	1,954,679
Changes in equity for the six months ended December 31, 2021								
Profit for the period		–	–	–	–	–	99,053	99,053
Other comprehensive income		–	–	–	349	–	–	349
Total comprehensive income		–	–	–	349	–	99,053	99,402
Appropriation to statutory reserve	*17(c)(i)*	–	–	19,616	–	–	(19,616)	–
Balance at December 31, 2021		1,333,334	331,149	49,552	1,959	110,470	227,617	2,054,081

	Note	Attributable to equity shareholders of the Company						
		Share capital	Capital reserve	Surplus reserve	Fair value reserve	General reserve	Retained profits	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at January 1, 2022		**1,333,334**	**331,149**	**49,552**	**1,959**	**110,470**	**227,617**	**2,054,081**
Changes in equity for the six months ended June 30, 2022:								
Profit for the period		**–**	**–**	**–**	**–**	**–**	**111,854**	**111,854**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**111,854**	**111,854**
Dividends approved in respect of the previous year	*17(d)*	**–**	**–**	**–**	**–**	**–**	**(60,000)**	**(60,000)**
Balance at June 30, 2022		**1,333,334**	**331,149**	**49,552**	**1,959**	**110,470**	**279,471**	**2,105,935**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended June 30, 2022 – unaudited

(Expressed in RMB)

		Six months ended June 30,	
		2022	2021
	Note	***RMB'000***	*RMB'000*
Operating activities			
Cash generated from/(used in) operations		**289,681**	(106,691)
PRC income taxes paid	*13(a)*	**(57,696)**	(45,254)
Net cash generated from/(used in) operating activities		**231,985**	(151,945)
Investing activities			
Payment for purchase of equipment and intangible assets		**(1,584)**	(1,022)
Proceeds from disposal and redemption of investments		**9,800**	–
Payments on acquisition of investments		**(780)**	(1,000)
Net cash generated from/(used in) investing activities		**7,436**	(2,022)
Financing activities			
Proceeds from borrowings		**1,933,246**	2,639,509
Repayment of borrowings		**(2,237,839)**	(2,362,347)
Interest paid		**(99,864)**	(99,653)
Capital element of lease rentals paid		**(9,556)**	(719)
Interest element of lease rentals paid		**(874)**	(183)
Other borrowing costs paid		**(4,658)**	(3,352)
Net cash (used in)/generated from financing activities		**(419,545)**	173,255
Net (decrease)/increase in cash and cash equivalents		**(180,124)**	19,288
Cash and cash equivalents at January 1		**650,163**	413,273
Effect of foreign exchanges rates changes		**22**	(8)
Cash and cash equivalents at June 30	*14*	**470,061**	432,553

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("**IAS**") 34, *Interim financial reporting,* issued by the International Accounting Standards Board (the "**IASB**"). It was authorised for issue on August 19, 2022.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of any changes in accounting policies are set out in Note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity,* issued by the Hong Kong Institute of Certified Public Accountants.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group:

- Amendments to IFRS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to IFRS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract.*

None of these developments 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 in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE

The principal activities of the Group are providing finance lease services, and related advisory services to customers in the PRC. The Group has no lessee for the six months ended June 30, 2022 and 2021, with whom transactions have exceeded 10% of the Group's aggregate revenues.

No segment information is presented as the Group is principally engaged in a single line of business. Revenue represents interest income and advisory fee net of value added taxes and other charges.

The amount of each significant category of revenue is as follows:

		Six months ended June 30,	
		2022	2021
	Note	***RMB'000***	*RMB'000*
Interest income			
– Finance lease receivables		**16,734**	22,487
– Sale-and-leaseback transactions		**270,330**	230,817
– Intellectual property lease transactions		**12,240**	–
Advisory fee income	*(i)*		
– Management advisory fee income		**18,986**	15,856
– Policy advisory fee income		**44,269**	39,490
		362,559	308,650

Note:

(i) Advisory fee income arises from contracts with customers within the scope of IFRS 15, and is recognised at a point in time.

4 OTHER NET INCOME

		Six months ended June 30,	
		2022	2021
	Note	***RMB'000***	*RMB'000*
Interest from deposits		**2,234**	3,293
Government grants	*(i)*	**4,033**	3,000
Investment income		**247**	–
Others		**289**	93
		6,803	6,386

Note:

(i) The government grants were mainly provided to support small and medium enterprises of leasing business.The grants were unconditional and were therefore recognised as income when received.

5 INTEREST EXPENSE

	Six months ended June 30, 2022 RMB'000	2021 RMB'000
Borrowings	**87,746**	71,235
Borrowings from a related party	**14,379**	17,616
Imputed interest expense on interest-free guaranteed deposits from lessees	**29,942**	27,603
Interest expense on lease liabilities	**1,109**	183
	133,176	116,637

6 OPERATING EXPENSE

Profit before taxation is arrived at after charging:

(a) Staff costs

	Six months ended June 30, 2022 RMB'000	2021 RMB'000
Salaries, bonuses and allowances	**22,316**	23,688
Social insurance and other benefits	**9,576**	7,970
Cash-settled share-based payments	**663**	657
Subtotal	**32,555**	32,315

(b) Other items

	Six months ended June 30, 2022 RMB'000	2021 RMB'000
Depreciation charge		
– owned equipment	**371**	354
– right-of-use assets	**6,439**	5,584
Amortisation cost of		
– intangible assets	**2,216**	1,673
– others	**184**	184
Other rental expenses	**838**	792

7 IMPAIRMENT LOSSES CHARGED

	Note	Six months ended June 30, 2022 RMB'000	2021 RMB'000
Loans and receivables	*11(c)*	**26,785**	21,419
Credit commitments		**198**	(31)
		26,983	21,388

8 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

		Six months ended June 30,	
		2022	2021
	Note	***RMB'000***	*RMB'000*
Current tax			
– PRC Enterprise Income Tax ("**EIT**") Provision for the period		**37,938**	36,730
Deferred income tax			
– Origination of temporary differences	*13(b)*	**(449)**	(4,300)
		37,489	32,430

Notes:

(i) The Company is subject to PRC EIT at the statutory rate of 25%. The consolidated structured entities are not subject to PRC EIT.

(ii) No provision for Hong Kong Profits Tax has been made for the Company and the consolidated structured entities as the Company and the consolidated structured entities have not derived any income subject to Hong Kong Profits Tax.

9 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB111.9 million (six months ended June 30, 2021: RMB96.9 million) and the weighted average of 1,333.3 million ordinary shares (six months ended June 30, 2021: 1,333.3 million) in issue during the interim period.

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding for the six months ended June 30, 2022 and 2021.

10 PROPERTY AND EQUIPMENT

	Properties leased for own use carried at cost	**Electronic equipment**	**Office equipment**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
As at January 1, 2021	30,482	3,347	1,002	1,447	36,278
Additions	43,123	712	156	539	44,530
Disposals	(23,404)	(83)	(6)	(827)	(24,320)
As at December 31, 2021/ January 1, 2022	50,201	3,976	1,152	1,159	56,488
Additions	–	183	6	–	189
Disposals	–	(26)	–	–	(26)
As at June 30, 2022	50,201	4,133	1,158	1,159	56,651

	Properties leased for own use carried at cost *RMB'000*	Electronic equipment *RMB'000*	Office equipment *RMB'000*	Others *RMB'000*	Total *RMB'000*
Accumulated depreciation					
As at January 1, 2021	(20,368)	(1,375)	(624)	(874)	(23,241)
Charge for the year	(14,105)	(536)	(122)	(482)	(15,245)
Written back on disposals	23,404	26	6	827	24,263
As at December 31, 2021/ January 1, 2022	(11,069)	(1,885)	(740)	(529)	(14,223)
Charge for the period	(6,223)	(296)	(63)	(228)	(6,810)
Written back on disposals	–	10	–	–	10
As at June 30, 2022	(17,292)	(2,171)	(803)	(757)	(21,023)
Net carrying amount					
As at June 30, 2022	32,909	1,962	355	402	35,628
As at December 31, 2021	39,132	2,091	412	630	42,265

11 LOANS AND RECEIVABLES

Loans and receivables by nature:

	Note	**June 30, 2022** ***RMB'000***	December 31, 2021 *RMB'000*
Minimum finance lease receivables			
Within one year		**510,029**	523,767
More than one year and not more than five years		**272,780**	216,625
Gross amount of finance lease receivables		**782,809**	740,392
Less: Unearned finance income		**(64,287)**	(50,160)
Net amount of finance lease receivables		**718,522**	690,232
Receivables from sale-and-leaseback transactions	*(i)*	**7,663,150**	7,812,185
Receivables from intellectual property lease transactions		**641,781**	205,841
Loans and receivables		**9,023,453**	8,708,258
Less:			
Provision for finance lease receivables		**(137,497)**	(105,829)
Provision for receivables from sale-and-leaseback transactions		**(119,569)**	(128,885)
Provision for intellectual property lease transactions		**(5,145)**	(712)
Provision for loans and receivables		**(262,211)**	(235,426)
Total		**8,761,242**	8,472,832

Note:

(i) Receivables from sale-and-leaseback transactions which do not satisfy sales under IFRS 15 for the seller-lessees, were recognised as loans and receivables in accordance with IFRS 9.

Analysis for reporting purpose as:

	June 30, 2022	December 31, 2021
	RMB'000	*RMB'000*
Non-current assets	**3,887,492**	3,778,745
Current assets	**4,873,750**	4,694,087
Total	**8,761,242**	8,472,832

(a) Present value of minimum finance lease receivables:

	June 30, 2022	December 31, 2021
	RMB'000	*RMB'000*
Not more than one year	**462,246**	483,829
More than one year and not later than five years	**256,276**	206,403
Total	**718,522**	690,232

(b) Loans and receivables and allowances for impairment losses:

	Six months ended June 30, 2022			
	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**
Net amount of loans and receivables	**8,532,759**	**25,203**	**465,491**	**9,023,453**
Less: Allowances for impairment losses	**(33,926)**	**(320)**	**(227,965)**	**(262,211)**
Carrying amount of loans and receivables	**8,498,833**	**24,883**	**237,526**	**8,761,242**

	December 31, 2021			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Net amount of loans and receivables	8,312,446	2,719	393,093	8,708,258
Less: Allowances for impairment losses	(44,075)	(28)	(191,323)	(235,426)
Carrying amount of loans and receivables	8,268,371	2,691	201,770	8,472,832

(c) Changes in allowance for impairment losses of loans and receivables are as follows:

	Six months ended June 30, 2022			
	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**
Balance at January 1, 2022	**44,075**	**28**	**191,323**	**235,426**
Transfer:				
– to lifetime ECL not credit-impaired	**(92)**	**92**	**–**	**–**
– to lifetime ECL credit-impaired	**(8,480)**	**(24)**	**8,504**	**–**
Charge	**(1,577)**	**224**	**28,138**	**26,785**
Balance at June 30, 2022	**33,926**	**320**	**227,965**	**262,211**

	December 31, 2021			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance at January 1, 2021	35,826	1,989	144,539	182,354
Transfer:				
– to lifetime ECL not credit-impaired	(18)	18	–	–
– to lifetime ECL credit-impaired	(23)	(1,965)	1,988	–
Charge	8,290	(14)	44,796	53,072
Balance at December 31, 2021	44,075	28	191,323	235,426

12 OTHER ASSETS

	Note	**June 30, 2022** *RMB'000*	December 31, 2021 *RMB'000*
Non-current assets			
Other assets		**451**	634
Current assets			
Deductible value-added tax (VAT)		**13,900**	22,239
Advance payments		**4,718**	6,319
Due from related parties	*20(c)*	**6,744**	3,108
Notes receivable		**500**	1,400
Other receivables		**1,344**	1,015
		27,206	34,081
Total		**27,657**	34,715

13 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Income tax payable

	June 30, 2022 *RMB'000*	December 31, 2021 *RMB'000*
At the beginning of the period/year	**32,144**	26,319
Provision for income tax for the period/year	**37,938**	79,239
Income tax paid	**(57,696)**	(73,414)
At the end of the period/year	**12,386**	32,144

(b) The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the period are as follows:

Deferred tax arising from:	**Revaluation of financial assets at fair value through other comprehensive income ("FVOCI")** *RMB'000*	**Revaluation of Interest in associates** *RMB'000*	**Revenue with EIT paid in prior years** *RMB'000*	**Allowance for impairment losses** *RMB'000*	**Accrued staff costs** *RMB'000*	**Total** *RMB'000*
January 1, 2021	(2,130)	–	3,068	45,613	6,673	53,224
Charged to profit or loss	–	(4,850)	5,805	13,251	(676)	13,530
Charged to other comprehensive income	(116)	–	–	–	–	(116)
December 31, 2021/January 1, 2022	(2,246)	(4,850)	8,873	58,864	5,997	66,638
Charged to profit or loss	–	662	(2,548)	6,746	(4,411)	449
June 30, 2022	(2,246)	(4,188)	6,325	65,610	1,586	67,087

14 CASH AND CASH EQUIVALENTS

	June 30, 2022	December 31, 2021
	RMB'000	*RMB'000*
Deposits with banks	**470,061**	650,163

15 BORROWINGS

	June 30, 2022	December 31, 2021
	RMB'000	*RMB'000*
Bank loans		
– pledged	**1,753,246**	1,248,758
– unsecured	**1,058,690**	904,348
Borrowings from related parties		
– pledged	**180,000**	900,000
Asset-backed securities	**2,076,633**	2,317,970
	5,068,569	5,371,076

Analysis for reporting purpose as:

	June 30, 2022	December 31, 2021
	RMB'000	*RMB'000*
Non-current liabilities	**1,133,477**	2,539,257
Current liabilities	**3,935,092**	2,831,819
	5,068,569	5,371,076

As at June 30, 2022, the borrowings were repayable as follows:

	June 30, 2022	December 31, 2021
	RMB'000	*RMB'000*
Within one year	**3,935,092**	2,831,819
After 1 year but within 2 years	**1,008,264**	2,363,754
After 2 years but within 5 years	**125,213**	175,503
	5,068,569	5,371,076

The ranges of contractual interest rates on the borrowings are as follows:

	June 30, 2022	December 31, 2021
Range of interest rates:	**2.70% – 4.75%**	3.79% – 5.46%

16 TRADE AND OTHER LIABILITIES

	Note	**June 30, 2022** ***RMB'000***	December 31, 2021 *RMB'000*
Current liabilities			
Notes payable		**762,248**	528,474
Guaranteed deposits from lessees		**356,358**	323,245
Dividends payable		**60,000**	–
VAT to be collected in the following period		**54,810**	58,524
Accounts payable		**52,413**	97,483
Interest payable		**21,315**	18,194
Receipts in advance		**17,078**	3,785
Lease liabilities		**13,581**	12,423
Accrued staff costs	*(i)*	**8,275**	26,122
VAT payable and other tax payable		**1,363**	1,105
Other payables		**2,592**	3,875
		1,350,033	1,073,230
Non-current liabilities			
Guaranteed deposits from lessees		**817,177**	752,715
Deferred revenue		**87,687**	91,004
VAT to be collected in the following period		**30,970**	25,330
Lease liabilities		**20,812**	28,061
Accrued staff costs	*(i)*	**1,615**	952
Provision for credit commitments		**228**	30
		958,489	898,092
Total		**2,308,522**	1,971,322

Note:

(i) Contributions to the defined contribution retirement plan, include the social pension insurance schemes and the retirement benefit annuity plan, are recognized as expenses when incurred, and there is no forfeited contributions that may be used by the Group to reduce the existing level of contribution.

17 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

The Company was established in Beijing, the PRC on November 27, 2012, with a registered capital of RMB500.0 million. All equity shareholders made the full capital contributions for which they subscribed in three instalments before May 1, 2013.

On June 9, 2017, the Company's equity shareholders convened the third extraordinary meeting for 2017 and decided on a capital increase of RMB500.0 million in proportion to the equity shareholders' initial paid-in capital contribution. The registered capital of the Company was therefore increased to RMB1.0 billion.

On August 16, 2019, the Company was converted into a joint stock company and was renamed to Zhongguancun Science-Tech Leasing Co., Ltd.

On January 21, 2020, the Company initial public offered 333,334,000 H Shares (nominal value RMB1.00 per H Share) on the Hong Kong Stock Exchange at a price of HK$1.52 per H Share. Following the completion of H share full circulation on April 14, 2021, the Company's registered share capital includes 840,000,000 domestic shares and 493,334,000 H shares.

(b) Capital reserve

On August 16, 2019, the Company was converted into a joint stock company and was renamed to Zhongguancun Science-Tech Leasing Co., Ltd. The audited net assets of the Company were RMB1,287.8 million as at December 31, 2018, of which RMB1,000.0 million was converted into 1,000.0 million shares of the joint stock company with a par value of RMB1.0 per share, RMB35.0 million was recorded as the retained profits of the Company which was used for the dividends distribution in respect of 2018, and RMB252.8 million was transferred to the capital reserve of the Company.

On January 21, 2020, the Company initial public offered 333,334,000 H Shares (nominal value RMB1.00 per H Share) on the Hong Kong Stock Exchange at a price of HK$1.52 per H Share. The net proceeds after deducting the listing expenses were approximately RMB411.7 million, out of which RMB333.3 million and RMB78.4 million were recorded in share capital and capital reserve respectively.

(c) Reserves

(i) Surplus reserve

The Company is required to appropriate 10% of its net profit, as determined under the China Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance of the PRC ("**MOF**"), to the statutory surplus reserve until the balance reaches 50% of the registered capital.

Subject to the approval of equity shareholders of the Company, statutory surplus reserve may be used to net off against accumulated losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital before capitalisation.

After making the appropriation to the statutory surplus reserve, the Company may also appropriate its net profit to the discretionary surplus reserve upon approval by equity shareholders.

(ii) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under IFRS 9 that are held at the end of the Reporting Period.

(iii) ***General reserve***

According to "Guidelines for the Supervision and Management of Beijing Financial Leasing Companies (Trial) (《北京市融資租賃公司監督管理指引(試行)》)" (the "**Guidelines**") issued on April 7, 2020, the Company maintained a general reserve within equity, through the appropriation of net profit, which should be no less than 1.5% of the year end balance of gross risk-bearing assets in 2020. Since the Guidelines were annulled on July 15, 2021, there is no requirement for the Company to appropriate its net profit to general reserve in future.

(d) Dividends

Final dividend in respect of the previous financial year, approved and paid during the interim period was nil (six months ended June 30, 2021: nil). Dividend which was approved but not paid during the interim period was RMB60.0 million (six months ended June 30, 2021: RMB58.0 million).

18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	June 30, 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVOCI	**–**	**–**	**11,986**	**11,986**
Financial assets at FVTPL	**–**	**–**	**1,000**	**1,000**
Total	**–**	**–**	**12,986**	**12,986**

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Financial assets at FVOCI	–	–	11,986	11,986
Financial assets at FVTPL	–	–	1,000	1,000
Total	–	–	12,986	12,986

For the six months ended June 30, 2022 and 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the Reporting Period in which they occur.

Information about Level 3 fair value measurements

The following table presents the related valuation techniques and inputs of the major financial instruments in Level 3.

Financial assets/ liabilities	Fair value hierarchy	Valuation Technique(s) and Key inputs	Significant Unobservable Input(s)	Relationship of unobservable input(s) to fair value
Unlisted investments	Level 3	Market comparable companies	Discount for lack of marketability	The higher the discount, the lower the fair value

The fair value of unlisted investments are determined using the price/earning ratios of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of market ability.

The movements during the period/year in the balance of these Level 3 fair value measurements are as follows:

	June 30, 2022	December 31, 2021
	RMB'000	*RMB'000*
Unlisted investments:		
At the beginning of the period/year	**12,986**	11,521
Payments on acquisition of investments	**–**	1,000
Net unrealised gains or losses recognised in other comprehensive income during the period/year	**–**	465
At the end of the period/year	**12,986**	12,986

19 COMMITMENTS

(a) Credit commitments

The Group's non-cancellable credit commitments are primarily loans and receivables that have been contracted, but not provided for. As at June 30, 2022, the Group's non-cancellable lease commitments amounted to RMB49.0 million (December 31, 2021: RMB5.0 million).

(b) Capital commitments

As at June 30, 2022, the unpaid capital investment against Beijing Zhongnuo Tongchuang Investment Fund Management Co., Ltd. (北京中諾同創投資基金管理有限公司) and Beijing Zhongnuo Yuanjian Chuangxin Investment Fund Center (Limited Partnership) (北京中諾遠見創新投資基金中心(有限合夥)) was RMB2.3 million and RMB200.0 million (December 31, 2021: RMB3.1 million and nil), respectively. All of the above investees are associates which are accounted for using the equity method in the consolidated financial statements.

20 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

	Six months ended June 30,	
	2022	2021
	RMB'000	*RMB'000*
Key management personnel remuneration	**6,273**	6,590

(b) Transaction amounts with related parties:

	Six months ended June 30, **2022** *RMB'000*	2021 *RMB'000*
Trade related		
Repayment of loans and receivables from a related party	**629**	2,212
Repayment of security deposits payable to a related party	**912**	–
Interest income from loans and receivables to a related party	**9**	111
Non-trade related		
Borrowing related		
Repayment of borrowings from a related party	**820,000**	840,000
Borrowings from a related party	**100,000**	1,200,000
Interest expenses arising from borrowings from a related party	**14,379**	17,616
Guarantee related		
Release of guarantees from a related party	**132,568**	82,305
Others		
Payment for the lease of house rental, property management and parking fee to a related party	**6,787**	3,149
Increase of advance payment to a related party	**3,388**	–
Payment of other receivables of a related party	**50**	–

(c) The balances of transactions with related parties:

	June 30, 2022 *RMB'000*	December 31, 2021 *RMB'000*
Trade related		
Loans and receivables from a related party	**–**	630
Security deposits payable to a related party	**–**	912
Non-trade related		
Borrowing related		
Borrowings payable to a related party	**180,000**	900,000
Interest payable to a related party	**487**	1,304
Guarantee related		
Balance of guarantees from a related party	**408,757**	541,325
Others		
Advance payment to a related party	**3,388**	–
Deposits for rental	**3,107**	3,107
Dividends receivable from a related party	**248**	–
Other receivables from a related party	**1**	1

21 CONSOLIDATED STRUCTURED ENTITIES

In the course of its ordinary activities, the Group enters into asset securitisation transactions and transfers the finance receivables to special purpose entities, which are structured entities created to provide opportunities for investors to invest in the loans and receivables. Where a structured entity conducts activities according to contractual arrangements, the voting rights in it are not one of the main factors to consider in assessing whether the Group controls the structured entity. The Group obtains control over a structured entity when it involves itself in the entity's operations and is exposed to variable returns from such involvement, and when it has the ability to affect those returns through its power over the structured entity. In this case, the Group includes the structured entities in its consolidation scope.

As at June 30, 2022, the number of consolidated structured entities of the Group was four (December 31, 2021: five). As at June 30, 2022, the total assets of the consolidated structured entities amounted to RMB2,201.2 million (December 31, 2021: RMB2,394.5 million).

22 SHARE-BASED PAYMENT ARRANGEMENTS

(a) Description of share-based payment arrangements

On 23 December 2020, the Group granted 12,670,000 share appreciation rights ("**SARs**") to employees that entitle them to a cash payment after certain non-market performance conditions are satisfied. The SARs expire at the end of a five-year period after grant date. The amount of the cash payment is determined based on the increase from the par value of H share to the share price of exercise date of the Company.

Details of the liabilities arising from the SARs, which are recorded in trade and other liabilities, are as follows:

	June 30, 2022	December 31, 2021
	RMB'000	*RMB'000*
Total carrying amount of liabilities for SARs	**1,615**	952
Total intrinsic value of liabilities for vested benefits	**–**	–

(b) Measurement of fair values

The fair value of the SARs has been measured using the binomial model. Non-market performance conditions attached to the arrangements were not taken into account in measuring fair value.

The inputs used in the measurement of the fair values at measurement date of the SARs are as follows:

	June 30, 2022	December 31, 2021
Fair value at measurement date *(in RMB)*	**0.10**	0.09
Share price *(in HKD)*	**0.7**	0.8
Exercise price *(in RMB)*	**1**	1
Expected volatility	**35.72%**	35.39%
Expected life *(year)*	**3.5**	4.0
Expected dividends	**0%**	0%
Risk-free interest rate	**3.12%**	1.25%

Expected volatility has been based on the historical volatility (calculated based on the weighted average remaining life of the SARs) and adjusted for any expected changes to future volatility based on publicly available information.

(c) **Reconciliation of outstanding SARs**

The number and exercise price of SARs are as follows:

	Number of SARs	Exercise price
Outstanding at January 1, 2022	12,670,000	RMB1
Granted during the period	–	–
Outstanding at June 30, 2022	12,670,000	RMB1
Exercisable at June 30, 2022	–	–

The SARs outstanding at June 30, 2022 had an exercise price of RMB1 and a remaining contractual life of 3.5 years.

(d) **Expense recognised in profit or loss**

For details of the related staff costs, see Note 6(a).

23 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On March 14, 2022, the Company entered into an agreement to invest in Beijing Zhongnuo Yuanjian Chuangxin Investment Fund Center (Limited Partnership) (北京中諾遠見創新投資基金中心(有限合夥)) as a limited partner with subscribed capital of RMB200.0 million and 40% equity interest. On July 8, 2022, the Company completed the first capital injection of RMB80.0 million.

MANAGEMENT DISCUSSION AND ANALYSIS

	For the six months ended June 30,		For the year ended December 31,		
	2022	2021	2021	2020	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Operating Performance					
Revenue	**362,559**	308,650	656,943	587,565	515,340
Interest income	**299,304**	253,304	541,367	480,944	420,698
Advisory fee income	**63,255**	55,346	115,576	106,621	94,642
Other net income	**6,803**	6,386	14,423	19,079	18,759
Interest expense	**(133,176)**	(116,637)	(246,545)	(232,839)	(220,978)
Operating expense	**(58,957)**	(53,505)	(129,407)	(116,141)	(100,190)
Impairment losses charged	**(26,983)**	(21,388)	(53,004)	(44,467)	(27,768)
Share of (losses)/gains of associates	**(925)**	5,805	19,391	(1,687)	(265)
Net foreign exchange gains/(losses)	**22**	(17)	(175)	3,999	(12)
Profit before taxation	**149,343**	129,294	261,626	215,509	184,886
Net profit	**111,854**	96,864	195,917	161,466	138,256
Basic and diluted earnings per Share *(in RMB)*	**0.08**	0.07	0.15	0.12	0.14
Profitability					
Return on average equity [1]	**10.8%**	10.0%	9.9%	9.8%	10.3%
Return on average assets [2]	**2.4%**	2.4%	2.2%	2.1%	2.1%
Net interest margin [3]	**3.7%**	3.6%	3.8%	3.6%	3.4%
Net interest spread [4]	**2.5%**	2.3%	2.6%	2.4%	2.2%
Net profit margin [5]	**30.9%**	31.4%	29.8%	27.5%	26.8%

Notes:

(1) Calculated by dividing net profit for the period/year by the average balance of total equity at the beginning and the end of the period/year, presented on an annualized basis.

(2) Calculated by dividing net profit for the period/year by the average balance of total assets at the beginning and the end of the period/year, presented on an annualized basis.

(3) Calculated by dividing net interest income for the period/year by the average balance of interest-earning assets, presented on an annualized basis.

(4) Calculated as the difference between interest income yield and interest expense yield for the period/year, presented on an annualized basis.

(5) Calculated by dividing profit for the period/year by the total revenue for the period/year.

	As of June 30,		As of December 31,		
	2022	2021	2021	2020	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets and liabilities					
Total assets	**9,495,412**	8,236,009	9,428,623	8,165,054	6,988,985
Net amount of finance lease receivables	**8,761,242**	7,535,443	8,472,832	7,382,156	6,424,127
Total liabilities	**7,389,477**	6,281,330	7,374,542	6,249,239	5,596,729
Interest-bearing bank and other financing	**5,068,569**	4,430,333	5,371,076	4,153,046	4,158,382
Total equity	**2,105,935**	1,954,679	2,054,081	1,915,815	1,392,256
Net assets per share *(in RMB)*	**1.58**	1.47	1.54	1.44	1.39
Financial Indicators					
Liability to asset ratio (1)	**77.8%**	76.3%	78.2%	76.5%	80.1%
Risk asset to equity ratio (2)	**428.2%**	396.7%	426.4%	397.4%	480.9%
Liquidity ratio (3)	**101.4%**	119.8%	137.1%	104.0%	117.7%
Gearing ratio (4)	**240.7%**	226.7%	261.5%	216.8%	298.7%
Interest-earning asset quality					
NPA ratio (5)	**1.6%**	1.5%	1.5%	1.5%	1.3%
Allowance coverage ratio for NPA (6)	**182.5%**	171.5%	175.9%	163.2%	158.0%

Notes:

(1) Calculated by dividing total liabilities by total assets.

(2) Calculated by dividing risk assets by total equity. Risk assets are the total assets net of cash and cash equivalents and pledged and restricted deposits.

(3) Calculated by dividing current assets by current liabilities as of the end of the year.

(4) Calculated by dividing total debt by total equity. The total debt consists of borrowings.

(5) Represent the percentage of non-performing assets (the "**NPA**") in the total interest-earning assets before deducting allowances for impairment losses.

(6) Calculated by dividing allowances for impairment losses of interest-earning assets by the balance of non-performing interest-earning assets.

1. BUSINESS REVIEW

1.1 Economic Conditions

In the first half of 2022, due to the impact of the Russia-Ukraine crisis, increase in interest rates on the US dollar, COVID-19 flare-ups on multiple fronts across China, defaults by real estate companies and other factors, the economic outlook weakened, disposable income for households decreased and manufacturing investment and real estate investment growth rate dropped. China's overall economic growth slowed down significantly, and GDP in the first half of the year increased by 2.5% year-on-year. In the second half of the year, with scientific epidemic prevention and control measures, government's increased investment in infrastructure, enhanced policy support for new energy, intelligent manufacturing and key and core technological innovation, sustained efforts to promote the recovery of consumption and other policies for stable growth, China's economic recovery is expected to accelerate.

Since 2021, the finance leasing industry has entered a critical period of centralized supervision, centralized registration, accelerated clearing, transformation and optimization. The industry competition has multiple fronts, and finance leasing companies that focus on specific markets and excel in professional fields have ushered in new development opportunities. In the current context of downward economic growth, standardized development of the industry and transformation and optimization, as one of the financial businesses most closely linked to the real economy, the finance leasing industry is re-focusing on its business core, and fields such as intelligent manufacturing, new energy and new infrastructure have become major trends of the industry transformation and optimization.

Source: National Bureau of Statistics of China

1.2 Company's Response

Our Group stepped up to risks and challenges, seized key opportunities to promote strategic upgrading and business transformation, and achieved sustained growth in scale and efficiency. Our main measures taken in the first half of the year include:

The finance leasing business develops steadily and the intellectual property financing business grows rapidly. In the first half of the year, the Group optimized its business arrangement, increased investment in the industrial chains of intelligent manufacturing, intelligent hardware and new energy vehicles, expanded customer base in early stage and marketing channels, and realized the finance lease principle of about RMB3.21 billion, a 23.7% increase over the previous year. Meanwhile, the Group devoted to product innovation, and the scale of intellectual property financing expanded continuously. In the first half of the year, the Group invested about RMB510.0 million in intellectual property financing projects, and launched intellectual property securitization projects in Chaoyang (Beijing), Binhai (Tianjin) and Shunde (Guangdong).

"Leasing-based Equity Investment" business keeps gaining momentum. In the first half of the year, the Group's funds signed 37 new share option projects, and the share option pool keeps expanding. The first leasing-based equity investment fund delivered in the first half-year was about RMB20.0 million, and all the investment work of the first fund was completed, totaling 16 investment projects. The scale of the second leasing-based equity investment fund was RMB500.0 million. The industrial and commercial registration has been completed and it is undergoing filing procedures.

The regional expansion strategies started smoothly. In the first half of the year, the Group recruited partners in Shenzhen, Hangzhou and Suzhou to implement finance leasing business, practice regional expansion strategies, concentrate advantageous resources, focus on core economic regions, introduce high-quality science and innovation enterprise customers, and further optimize and scale the customer base.

Pooling of funds significantly improved. In the first half of the year, the Group was assigned corporate credit rating of AA+ and a stable outlook from CSCI Pengyuan Credit Rating Co., Ltd. (中證鵬元資信評估股份有限公司) ("**CSCI Pengyuan**"). The corporate credit rating has improved. Meanwhile, the Group completed its assets package of the first intellectual property ABS, further innovated financing tools and reduced financing costs.

Digital development enables business growth. In the first half of the year, the Group was committed to digital transformation and upgrading. With the aim of achieving "refined management, digital business, standardized processes and intelligent decision-making", the Group promoted digital top-level design and built a service-oriented application architecture system. In the practice of digital transformation, in the first half of the year, the Group increased investment in digital marketing, digital due diligence, digital operation, intelligent finance and small and micro market product development, reached science and technology innovation enterprise customer groups accurately and efficiently, enabled diversified business operation scenarios, and mobilized digital tools and big data platforms to maximize the multiplier effect of digitalization on improving operation efficiency, decision-making and customer experience.

2. ANALYSIS OF PROFIT OR LOSS

2.1 Overview

During the Reporting Period, the Group realized a total revenue of RMB362.6 million, representing an increase of 17.5% as compared to the total revenue of RMB308.7 million for the corresponding period of last year, and the net profit for the period amounted to RMB111.9 million, representing an increase of 15.5% as compared to the net profit of RMB96.9 million for the corresponding period of last year. During the Reporting Period, the Group continued to optimize the asset structure and improve the profitability and the efficiency of capital use.

2.2 Revenue

During the Reporting Period, the Group realized a total revenue of RMB362.6 million, representing an increase of 17.5% as compared to the total revenue of RMB308.7 million for the corresponding period of last year, and the interest income and advisory fee income recorded stable growth. During the Reporting Period, interest income amounted to RMB299.3 million, accounting for 82.6% of the total revenue and representing an increase of 18.2% as compared to that of the corresponding period of last year. Advisory fee income amounted to RMB63.3 million, representing an increase of 14.3% as compared to that of the corresponding period of last year, due to the Group actively delivering a variety of advisory value-added services to the customers.

The following table sets forth the Group's revenue from interest income and advisory fee income for the periods indicated:

	For the six months ended June 30,				
	2022		2021		**Changes**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Interest income	**299,304**	**82.6%**	253,304	82.1%	18.2%
Advisory fee income	**63,255**	**17.4%**	55,346	17.9%	14.3%
Total revenue	**362,559**	**100.0%**	308,650	100.0%	17.5%

2.2.1 Interest Income

The interest income of the Group increased by 18.2% from RMB253.3 million for the corresponding period of last year to RMB299.3 million for the Reporting Period, accounting for 82.6% of the total revenue of the Group primarily due to the further expansion of our business.

The following table sets forth the average balance, interest income and average yield of interest-earning assets for the periods indicated:

	For the six months ended June 30,					
	2022			2021		
	Amount[(1)]	**Interest income**	**Average yield of interest-earning assets**[(2)]	Amount	Interest income	Average yield of interest-earning assets
	RMB'000	***RMB'000***	***%***	*RMB'000*	*RMB'000*	*%*
Total	**8,865,856**	**299,304**	**6.8%**	7,651,863	253,304	6.6%

Notes:

(1) The average balance of interest-earning assets is calculated by dividing the sum of loans and receivables before allowances for impairment losses at the beginning of the period and at the end of the period by two.

(2) In calculating average yield of interest-earning assets for the six months ended June 30, 2021 and 2022, we annualized our interest income by multiplying the interest income in the six months ended June 30, 2021 and 2022, respectively, by two, and then divided the annualized interest income by average balance of interest-earning assets.

Analysis by Average Balance of Interest-earning Assets

The average balance of interest-earning assets of the Group increased by 15.9% from RMB7,651.9 million for the corresponding period of last year to RMB8,865.9 million for the Reporting Period, primarily due to the expansion of our business, which led to a continuous increase in the finance lease principle amount.

Analysis by Average yield of interest-earning assets

During the Reporting Period, the average yield of interest-earning assets of the Group was 6.8%, which remained stable, representing an increase of 0.2% from 6.6% in the corresponding period of last year. At the same time, the Group's interest expense yield decreased from 4.1% to 3.9%. The Group maintained a steady increase in the rate of return on assets against the backdrop of declining capital costs, showing the continuous improvement of the Group's business premium capability.

2.2.2 Advisory Fee Income

During the Reporting Period, the advisory fee income of the Group increased by 14.3% from RMB55.3 million for the corresponding period of last year to RMB63.3 million for the Reporting Period, accounting for 17.4% of the total revenue of the Group, mainly due to the increase of the Group's customers.

The Group delivered a variety of advisory services to its customers, including management and business consulting and policy advisory.

The following table sets forth the contribution by service category to advisory fee income for the periods indicated:

	For the six months ended June 30,				
	2022		2021		**Changes**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Policy advisory fee income	**44,269**	**70.0%**	39,490	71.4%	12.1%
Management advisory fee income	**18,986**	**30.0%**	15,856	28.6%	19.7%
Total advisory fee income	**63,255**	**100.0%**	55,346	100.0%	14.3%

2.3 *Interest Expense*

During the Reporting Period, the interest expense of the Group amounted to RMB133.2 million, representing an increase of 14.2% as compared to RMB116.6 million for the corresponding period of last year, which was mainly caused by the rapid growth in finance lease business, under the support of the Company.

The following table sets forth the breakdown of our interest expense by funding sources for the periods indicated:

	For the six months ended June 30,				
	2022		2021		**Changes**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Commercial banks	**48,399**	**36.4%**	52,656	45.1%	(8.1%)
Borrowings from related parties [(1)]	**14,379**	**10.8%**	17,616	15.1%	(18.4%)
Asset-backed securities	**39,347**	**29.5%**	18,579	15.9%	111.8%
Imputed on interest-free guaranteed deposits	**29,942**	**22.5%**	27,603	23.7%	8.5%
Lease liabilities	**1,109**	**0.8%**	183	0.2%	506.0%
Total interest expense	**133,176**	**100.0%**	116,637	100.0%	14.2%

Note:

(1) Refer to pledged loans from Zhongguancun Development Group Co., Ltd. (中關村發展集團股份有限公司) ("**ZGC Group**") and its subsidiaries.

The following table sets forth the average balance, interest expense and interest expense yield of interest-bearing liabilities for the periods indicated:

	For the six months ended June 30,					
	2022			2021		
Borrowings [1]	**Amount** [2]	**Interest expense**	**Average cost** [3]	Amount	Interest expense	Average cost
	RMB'000	***RMB'000***		*RMB'000*	*RMB'000*	
Commercial banks	**2,420,432**	**48,399**	**4.0%**	2,491,735	52,656	4.2%
Borrowings from related parties	**614,286**	**14,379**	**4.7%**	922,857	17,616	3.8%
Asset-backed securities	**2,192,278**	**39,347**	**3.6%**	896,084	18,579	4.1%
Borrowings	**5,226,996**	**102,125**	**3.9%**	4,310,676	88,851	4.1%

Notes:

(1) Not including imputed interest expense on interest-free guaranteed deposits from lessees and interest expense on lease liabilities.

(2) Calculated based on the average of the monthly balance of interest-bearing liabilities for the six months ended June 30, 2021 and 2022.

(3) Calculated based on dividing the annualized interest expenses by the average of the monthly balance of interest-bearing liabilities for the six months ended June 30, 2021 and 2022.

During the Reporting Period, the Group held an interest expense cost on borrowings of 3.9%, representing a decrease as compared to the corresponding period of last year, mainly due to the Group's active financing cost management, enhancement of fund balance, optimization of liability structure and reduction of financing cost.

2.4 Net Interest Spread and Net Interest Margin

The following table sets forth the net interest margin and relevant figures for the periods indicated:

	For the six months ended June 30,		
	2022	2021	**Changes**
	RMB'000	*RMB'000*	
Interest income	**299,304**	253,304	18.2%
Interest expenses	**(133,176)**	(116,637)	14.7%
Net interest income	**166,128**	136,667	21.6%
Interest income yield (1)	**6.7%**	6.7%	0.0%
Interest expense yield (2)	**4.2%**	4.4%	(4.5%)
Net interest spread (3)	**2.5%**	2.3%	8.7%
Net interest margin (4)	**3.7%**	3.6%	2.8%

Notes:

(1) Calculated by dividing annualized interest income by the monthly average balance of interest-earning assets.

(2) Calculated by dividing annualized interest expenses by the monthly average balance of interest-bearing liabilities.

(3) Calculated as the difference between interest income yield and interest expense yield.

(4) Calculated by dividing annualized net interest income by the average balance of interest-earning assets.

During the Reporting Period, the net interest spread of the Group was 2.5% and the net interest margin was 3.7%, representing an increase as compared to the corresponding period of last year, mainly due to the continuous improvement of business premium capability, the Group maintained a steady increase in the rate of return on assets against the backdrop of declining capital costs. For details of changes in interest expense yield, please refer to the discussion and analysis in item "2.3 Interest Expense" of this section.

2.5 *Other Net Income*

Other net income primarily included the government grant we received from the relevant authorities and interests from our bank deposits. During the Reporting Period, we received other net income of RMB6.8 million, an increase of 6.5% over the corresponding period of last year, mainly due to the increase of government subsidies.

The following table sets forth the breakdown of other net income of the Group for the periods indicated:

	For the six months ended June 30,		
	2022	2021	**Changes**
	RMB'000	*RMB'000*	
Government grants	**4,033**	3,000	34.4%
Interests from deposits	**2,234**	3,293	(32.2%)
Investment Income [(1)]	**247**	0	N/A
Others	**289**	93	210.8%
Total other net income	**6,803**	6,386	6.5%

Note:

(1) Refer to the dividends received from the Group's equity investment.

2.6 *Operating Expense*

During the Reporting Period, operating expense of the Group amounted to RMB59.0 million, representing an increase of RMB5.5 million or 10.2% as compared to the corresponding period of last year.

The following table sets forth the breakdown of the Group's operating expenses for the periods indicated:

	For the six months ended June 30,				
	2022		2021		**Changes**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Staff cost	**32,439**	**55.0%**	31,965	59.7%	1.5%
Rental expense	**838**	**1.4%**	792	1.5%	5.8%
Service expense	**8,645**	**14.7%**	4,621	8.6%	87.1%
Depreciation and amortization	**9,208**	**15.6%**	7,795	14.6%	18.1%
Professional service expense	**4,361**	**7.4%**	4,131	7.7%	5.6%
Others	**3,466**	**5.9%**	4,201	7.9%	(17.5%)
Total operating expense	**58,957**	**100.0%**	53,505	100.0%	10.2%

2.7 Impairment Losses Charged

Impairment losses charged primarily related to loans and receivables and credit commitments of the Group. During the Reporting Period, the expected credit impairment losses of the Group amounted to RMB27.0 million, representing an increase of 26.2% as compared to the expected credit impairment losses of RMB21.4 million for the corresponding period of last year, mainly due to the continuously effort of the Group to expand the scale of customers, which led to the balance of interest earning assets increased by 15.9% compared to the corresponding period of last year. Meanwhile, the Group continued to promote the construction of risk control system, improve the ability of credit discovery and expand the scale of customers while stabilizing the quality of assets.

The following table sets forth a breakdown of our impairment losses charged for the periods indicated:

	For the six months ended June 30,		
	2022	2021	**Changes**
	RMB'000	*RMB'000*	
Loans and receivables	**26,785**	21,419	25.1%
Credit commitments [(1)]	**198**	(31)	(738.7%)
Impairment losses charged	**26,983**	21,388	26.2%

Note:

(1) The Group's non-cancellable credit commitments were primarily finance leases that have been contracted, but not yet commenced.

2.8 Income Tax Expense

During the Reporting Period, the income tax expense of the Group amounted to RMB37.5 million, representing an increase of RMB5.0 million or 15.6% as compared to the corresponding period of last year, contributed by the increase in profit before taxation.

During the Reporting Period, the effective income tax rate of the Group was 25.1%.

2.9 Profit for the Period

During the Reporting Period, the profit for the period of the Group amounted to RMB111.9 million, representing an increase of RMB15.0 million or 15.5% as compared to the corresponding period of last year. While the total revenue of the Group rose by 17.5%, the interest expense and operating expense increased by 14.2% and 10.2% respectively as compared to the corresponding period of last year. For details of changes in revenue, interest expense and operating expense, please refer to the discussion and analysis in items "2.2 Revenue", "2.3 Interest Expense" and "2.6 Operating Expense" of this section.

In summary, in the face of the complicated international and domestic political and economic environment, the Group has adopted active measures to broaden business channels and optimize profit structure, realizing the steady growth of operating revenue income and maintaining the asset quality stable. It is expected that with the enhancement of the Group's net capital strength and the further expansion of the finance leasing business together with the further improvement of digital capabilities, the Group's customer scale, the operation efficiency and the profitability will be improving on a constant basis.

2.10 Basic Earnings per Share

During the Reporting Period, the Group's basic earnings per share for the first half of 2022 amounted to RMB0.08, which has exceeded that of the corresponding period of last year, due to the soar in profit of the Group.

3. ANALYSIS OF FINANCIAL POSITION

3.1 Assets (Overview)

As at the end of the Reporting Period, total assets of the Group amounted to RMB9,495.4 million, representing growth of RMB66.8 million or 0.7% as compared to the end of last year. Loans and receivables amounted to RMB8,761.2 million, representing an increase of RMB288.4 million or 3.4% as compared to the end of last year. In terms of the asset structure, cash and cash equivalents accounted for 5.0% of total assets, and loans and receivables accounted for 92.3% of total assets.

The following table sets forth the breakdown of total assets of the Group as of the dates indicated:

	As of June 30, 2022		As of December 31, 2021		**Changes**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Loans and receivables	**8,761,242**	**92.3%**	8,472,832	89.9%	3.4%
Pledged and restricted deposits	**1,838**	**0.0%**	19,231	0.2%	(90.4%)
Cash and cash equivalents	**470,061**	**5.0%**	650,163	6.9%	(27.7%)
Other assets	**27,657**	**0.3%**	34,715	0.4%	(20.3%)
Deferred tax assets	**67,087**	**0.7%**	66,638	0.7%	0.7%
Property and equipment	**35,628**	**0.4%**	42,265	0.4%	(15.7%)
Interest in associates	**106,273**	**1.1%**	116,219	1.2%	(8.6%)
Financial assets at fair value through other comprehensive income	**11,986**	**0.1%**	11,986	0.1%	0.0%
Financial assets at fair value through profit or loss	**1,000**	**0.0%**	1,000	0.0%	
Intangible assets	**12,640**	**0.1%**	13,574	0.2%	(6.9%)
Total assets	**9,495,412**	**100.0%**	9,428,623	100.0%	0.7%

3.2 Loans and receivables

During the Reporting Period, the Group attracted 162 new customers for finance leasing and entered into 268 new contracts. Driven by the expansion of business scale, our loans and receivables continued to climb. As at the end of the Reporting Period, net amount of loans and receivables of the Group amounted to RMB9,023.5 million, representing an increase of 3.2% as compared to the end of last year.

The following table sets forth the breakdown of loans and receivables of the Group as of the dates indicated:

	As of June 30, 2022 *RMB'000*	As of December 31, 2021 *RMB'000*	**Changes**
Gross amount of loans and receivables	**9,692,721**	9,388,396	3.2%
Less: Unearned finance income	**(669,268)**	(680,138)	(1.6%)
Net amount of loans and receivables	**9,023,453**	8,708,258	3.6%
Less: Allowances for impairment losses	**(262,211)**	(235,426)	11.4%
Carrying amount of loans and receivables	**8,761,242**	8,472,832	3.4%

3.2.1 Maturity Profile of Loans and receivables

The following table sets forth the maturity analysis of the net amount of loans and receivables as of the dates indicated:

	As of June 30, 2022		As of December 31, 2021		**Changes**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Maturity					
Not later than 1 year	**5,115,462**	**56.6%**	4,912,295	56.4%	4.1%
1 to 2 years	**2,920,574**	**32.4%**	2,601,235	29.9%	12.3%
2 to 3 years	**844,466**	**9.4%**	1,042,837	12.0%	(19.0%)
Over 3 years	**142,951**	**1.6%**	151,891	1.7%	(5.9%)
Net amount of loans and receivables	**9,023,453**	**100%**	8,708,258	100%	3.6%

As at the end of the Reporting Period, 56.6% of the net amount of loans and receivables of the Group as set out in the table above was due not later than one year. As the Group promoted balanced business development, it is expected that the cash inflow from operation will remain stable in the future.

3.2.2 Asset Quality of Loans and receivables

The Group has been closely monitoring the quality of lease assets and implemented five-level standard since 2013, which classifies loans and receivables into five categories, namely (1) normal; (2) special mention; (3) sub-standard; (4) doubtful; and (5) loss. The latter three with credit impairment are classified as non-performing assets.

Lease Receivable Classification

1. Normal. The lessee is able to perform and has been performing its obligations under the finance lease agreement, and we have no reason to doubt our ability to recover the full amount of the lease receivable. Lease payments related to loans and receivables under this classification have always been on time or overdue for not more than 30 days.

2. Special mention. The lessee is able to perform and has been performing its obligations under the finance lease agreement, but there are adverse factors which may negatively impact our ability to recover the full amount of the lease receivable. Such factors include macro environment, industry policies, management ability of the lessee, credit profile, value of leased assets and lessees' willingness to pay.

3. Sub-standard. The lessee has demonstrated clear difficulties in making full lease payments with its own operating income, and certain losses may still incur even if taken into account the guarantee or the quality of leased assets.

4. Doubtful. The lessee has demonstrated great difficulties in making full lease payments, and significant losses on leased assets are very likely to incur even if taking into account the guarantee or the quality of leased assets.

5. Loss. After exhausting all necessary measures and legal remedies, we still cannot recover most of the lease receivable and interest income.

Leased Asset Management Measures

In the first half of 2022, facing the rapidly changing internal and external economic environment, the Group seized the key opportunities to promote strategic upgrading and business transformation and hedged the impact of the internal and external economic environment through diversified asset management measures. During the Reporting Period, the assets scale of the Group increased steadily, the asset quality remained stable and the allowance coverage ratio and the ability to resist risk continued to improve.

Upgrading the ability to discover high-quality assets and credit portfolio and expanding the channel for the introduction of high-quality assets

During the Reporting Period, the Group practiced the professional development path of its business and strengthened the integration of government and enterprise resources. On the above basis, the Group further optimized and upgraded the ability to discover high-quality assets and credit portfolio and expand the channel for the introduction of high-quality assets through the establishment of regional invested companies and the optimization of innovative products, which led to a steady increase of the size of customers and assets.

Promoting the upgrading of financial technology system and consolidating the efficiency of asset management

During the Reporting Period, the Group strengthened data governance, increased investment and construction of digital infrastructures to consolidated the foundation of data assets. The Group improved data collection and analysis capabilities to release data value and empower the business development. Based on the historical risk project database, the Group excavated the characteristics of historical risk projects, explored and expanded information sources and improved internal and external information collection and integration capabilities to upgrade post lease management level.

Optimizing the risk disposal management system and improving the asset disposal capacity

During the Reporting Period, the Group expanded new ideas for asset disposal, explored and broadened NPA disposal channels, and improved overdue handling capabilities. During the Reporting Period, the Company's ability to dispose of NPA has improved significantly.

The following table sets forth a breakdown of our loans and receivables by classifications as of the dates indicated:

	As of June 30, 2022		As of December 31, 2021		**Changes**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Normal	**8,532,758**	**94.5%**	8,264,776	94.9%	3.2%
Special mention	**346,979**	**3.8%**	309,661	3.6%	12.1%
Sub-standard	**68,963**	**0.8%**	62,335	0.7%	10.6%
Doubtful	**14,442**	**0.2%**	11,349	0.1%	27.3%
Loss	**60,311**	**0.7%**	60,137	0.7%	0.3%
Net amount of loans and receivables	**9,023,453**	**100.0%**	8,708,258	100.0%	3.6%
Non-performing assets	**143,716**		133,821		
NPA ratio	**1.6%**		1.5%		

During the Reporting Period, the Group continued to adhere to prudent risk management, practiced strict risk monitoring and management throughout the chain, and enhanced the core competitiveness of serving science and technology innovation enterprises. By practicing accurate identification, strict control and efficient resolution of various risks, the Group's asset quality remained stable, among them, the assets under normal accounted for 94.6%, which was mostly flat from the beginning of the year.

3.2.3 Impairment and Allowances for Loans and receivables

The following table sets forth a summary of allowance for loans and receivables as of the dates indicated. The Group adopts new accounting standards for financial instruments and applies the expected credit loss ("**ECL**") model under the new standards. The allowances for interest-earning assets of the Group increased by RMB26.8 million from RMB235.4 million as at the end of last year to RMB262.2 million as at the end of the Reporting Period.

	As of June 30, 2022		As of December 31, 2021	
	RMB'000	***% of total***	*RMB'000*	*% of total*
Allowances for Non-performing assets	**105,513**	**40.2%**	87,865	37.3%
Allowances for Normal and special assets	**156,698**	**59.8%**	147,561	62.7%
Total allowance for loans and receivables	**262,211**	**100.0%**	235,426	100.0%
Non-performing assets	**143,716**		133,821	
Ratio of allowances for impairment losses to loans and receivables	**182.5%**		175.9%	

As at the end of the Reporting Period, ratio of allowances for impairment losses to loans and receivables of the Group was 182.5%, which was 6.6 percentage point higher than that as compared to the end of last year. The management of the Group believes that prudent risk management policy is crucial to its sustainable growth.

The following table sets forth the breakdown of allowances measured based on ECL as of the dates indicated. The Group has been closely monitoring the credit quality of loans and receivables by monitoring their ECL. As at the end of the Reporting Period, ECL rate of financial lease receivables of the Group in stage one, stage two and stage three was 0.4%, 1.3% and 49.0% respectively, representing a decrease of 0.1%, an increase of 0.3% and an increase of 0.3% respectively as compared to the end of last year, and the Group increased the overall ECL rate from 2.7% to 2.9% and systematically strengthened the risk resistance capacity of its assets.

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL		
	balance	Not credit-impaired	Credit-impaired	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
June 30, 2022				
ECL rate%	**0.4%**	**1.3%**	**49.0%**	**2.9%**
Net amount of loans and receivables	**8,532,759**	**25,203**	**465,491**	**9,023,453**
Allowance for impairment loss	**(33,926)**	**(320)**	**(227,965)**	**(262,211)**
Carrying amount of loans and receivables	**8,498,833**	**24,883**	**237,526**	**8,761,242**
December 31, 2021				
ECL rate%	0.5%	1.0%	48.7%	2.7%
Net amount of loans and receivables	8,312,446	2,719	393,093	8,708,258
Allowance for impairment loss	(44,075)	(28)	(191,323)	(235,426)
Carrying amount of loans and receivables	8,268,371	2,691	201,770	8,472,832

3.3 Others

As at the end of the Reporting Period, cash and cash equivalents of the Group amounted to RMB470.1 million, which were denominated in RMB. The Group retained adequate cash to support business expansion and ensures its liquidity and safety. Restricted deposit of the Group amounted to RMB1.8 million, primarily comprising restricted bank deposits for bank acceptances and factorings.

At the end of the Reporting Period, the balance of trade and other receivables of the Group amounted to RMB27.7 million, mainly including advance payments to suppliers for purchase of equipment and deductible value-added input tax.

At the end of the Reporting Period, the balance of deferred tax assets of the Group amounted to RMB67.1 million, which were mainly derived from the temporary difference between net profit and taxable income in the financial report.

At the end of the Reporting Period, the balance of property and equipment of the Group amounted to RMB35.6 million, mainly including right-of-use assets and office equipment and computers for our employees.

At the end of the Reporting Period, the balance of interest in associates/joint ventures of the Group amounted to RMB106.3 million, which was the equity investment in the joint ventures, Beijing Zhongnuo Tongchuang Investment Fund Management Co., Ltd. and Jiangsu Zhongguancun Zhongnuo Xietong Investment Fund (Limited Partnership).

At the end of the Reporting Period, the balance of financial assets at fair value through other comprehensive income of the Group amounted to RMB12.0 million, which was the strategic equity investment in Beijing Zhongguancun Synergetic Innovation Investment Fund Management Co., Ltd.

At the end of the Reporting Period, the balance of financial assets at fair value through profit or loss of the Group amounted to RMB1.0 million, which was the equity investment in Beijing YuanBio Angel Venture Capital Partnership (Limited Partnership).

As at the end of the Reporting Period, the balance of intangible assets of the Group amounted to RMB12.6 million, mainly including software used in our business operations and risk management functions.

3.4 Liabilities

As at the end of the Reporting Period, total liabilities of the Group amounted to RMB7,389.5 million, representing an increase of RMB14.9 million or 0.2% as compared to the end of last year. In particular, borrowings were the main component of the liabilities of the Group, accounting for 68.6%, representing a decrease from 72.9% as compared to the end of last year.

The following table sets forth the liability analysis as of the dates indicated:

	As of June 30, 2022		As of December 31, 2021		**Changes**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Borrowings	**5,068,569**	**68.6%**	5,371,076	72.9%	(5.6%)
Trade and other liabilities	**2,308,522**	**31.2%**	1,971,322	26.7%	17.1%
Income tax payable	**12,386**	**0.2%**	32,144	0.4%	(61.5%)
Total liabilities	**7,389,477**	**100.0%**	7,374,542	100.0%	0.2%

3.5 Borrowings

The Group's borrowings included commercial bank borrowings, related party loans and asset-backed securities, of which commercial bank borrowings were the main source of financing, accounting for 55.5%, basically unchanged from the end of the last year, and the financing structure was stable. As at the end of the Reporting Period, borrowings of the Group amounted to RMB5,068.6 million, which were denominated in RMB, representing a decrease of RMB3.0 million or 5.6% as compared to the end of last year, the main reason is that the Group actively carried out position management during the Reporting Period.

The following table sets forth a breakdown of borrowings by funding sources as of the dates indicated:

	As of June 30, 2022		As of December 31, 2021		**Changes**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Bank loans	**2,811,936**	**55.5%**	2,153,106	40.1%	30.6%
– pledged	**1,753,246**	**34.6%**	1,248,758	23.2%	40.4%
– unsecured	**1,058,690**	**20.9%**	904,348	16.9%	17.1%
Borrowings from related parties (1)					
– pledged	**180,000**	**3.6%**	900,000	16.8%	(80.0%)
Asset-backed securities	**2,076,633**	**40.9%**	2,317,970	43.1%	(10.4%)
Total borrowings	**5,068,569**	**100.0%**	5,371,076	100.0%	(5.6%)

Note:

(1) Refer to pledged loans from the ZGC Group and its subsidiaries.

As at the end of the Reporting Period, the outstanding balance of bank loans of the Group was RMB2,812.0 million, accounting for 55.5% of the total borrowings, which was slightly higher as compared to the end of last year. The balance of borrowings from related parties accounted for 3.6% of the total borrowings, a decrease from the end of last year; and the balance of asset-backed securities accounted for 40.9% of the total borrowings, which was a decrease from the end of last year. During the Reporting Period, the Group continued to innovate asset financing measures and the first intellectual property assets backed security with the shelf of RMB500.0 million received a no comment letter. Meanwhile, during the Reporting Period, the Group was assigned corporate credit rating of AA+ and a stable outlook from CSCI Pengyuan, which helps the Group further expand its sources of funds and reduce financing costs.

The following table sets forth the distribution of borrowings by liquidity as of the dates indicated:

	As of June 30, 2022		As of December 31, 2021		**Changes**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Current	**3,935,092**	**77.6%**	2,831,819	52.7%	39.0%
Non-current	**1,133,477**	**22.4%**	2,539,257	47.3%	(55.4%)
Total borrowings	**5,068,569**	**100.0%**	5,371,076	100.0%	(5.6%)

As at the end of the Reporting Period, the current proportion of borrowings (including short-term borrowings and portions that were due within one year in long-term borrowings) of the Group accounted for 77.6% of total borrowings of the Group, representing an increase of 39.0% as compared to the end of last year.

3.6 Trade and Other Liabilities

Trade and other liabilities of the Group primarily includes guaranteed deposits from lessees, value-added taxes to be collected in the following period, accounts payables and notes payables, and lease liabilities.

Trade and other liabilities of the Group increased by 17.1% from RMB2,308.5 million as at the end of last year to RMB1,971.3 million as at the end of the Reporting Period, which was primarily due to increase of acceptance of notes payable.

3.7 Capital and Reserves

As at the end of the Reporting Period, total equity of the Group amounted to RMB2,105.9 million, representing an increase of RMB51.9 million or 2.5% as compared to that as at the end of last year.

The following table sets forth the details of total equity as of the dates indicated:

	June 30, 2022		December 31, 2020		**Changes**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Share capital	**1,333,334**	**63.3%**	1,333,334	64.9%	0.0%
Reserves	**772,601**	**36.7%**	720,747	35.1%	7.2%
Total equity	**2,105,935**	**100.0%**	2,054,081	100.0%	2.5%

4. CAPITAL EXPENDITURES

During the Reporting Period, the capital expenditure of the Group was RMB1.5 million, primarily including expenditures for upgrading information system regarding business operations and risk management, and purchase of office and electronic equipment.

5. RISK MANAGEMENT

The Group has established a set of prudent, efficient and innovative risk management structure designed to balance the risks with benefits generated in the process of serving technology and new economy industries. While driving the growth of technology and new economy companies with continued efforts, the Group achieved its maximum value.

The Group has been exposed to various operational risks, primarily including credit risks, interest rate risks, liquidity risks and foreign currency risks.

5.1 Credit Risks

Credit risks arise from our customers' failure to perform their payment obligations under the lease agreements or material and adverse changes in their creditworthiness. Credit risks are one of the major risks we are exposed to and may negatively impact our revenues, cash flow, and book value of leased assets. To manage and control the credit risks to which we are exposed, we have established and will keep updating the specialized and streamlined credit risk management policies and procedures.

Strict Industrial and Regional Customer Access. It is our consistent strategy to keep the region, industry and customers in check from the customer access, which is also the first step of credit risk control. Our five business departments conduct follow-up research on their respective science and technology innovation industries, put forward the customer classification standards reflecting the characteristics of the industry, and further established the access policy, due diligence standard and customized service scheme from the subdivided industry respectively. Among the fields in line with the government's industry policy guidance, we selected the subdivided industry with large development space, bright development prospects and good industry credit for business expansion. In terms of regional customer access, the Group focuses on the financial leasing business in 16 provinces and municipalities directly under the central government to reduce the risk of excessive diversification in the business area.

Scientific Credit Evaluation System. While strengthening risk management and control, in order to better realize our business potentials, we have optimized and upgraded the original rating model of "asset credit + subject credit+ debt security" and put forward the evaluation system of "subject credit + asset credit". While strengthening risk management and control, we optimized and upgraded the original rating model of "asset credit + subject credit + debt security" and proposed an evaluation system of "subject credit + asset credit" to better empower our businesses. Based on the characteristics of science and technology innovation enterprises in different development stages, the corporate credit rating model sets up three sub-models, namely, start-up growth model, high-speed growth model and stable growth model; and evaluates on multiple dimensions including investor recognition ability, technological development ability, market development ability and asset operation ability. The model uses investment banking methods to effectively tap into customer value and growth potential. The asset credit rating model evaluates the assets from two aspects: the credit enhancement measures rating and the leased assets rating; and strengthens asset risk management. In particular, the new intellectual property asset rating evaluates the intellectual property lease from five aspects: corporate innovation, patent acquisition rate, patent importance, patent transformation cycle and maximum remaining life. The optimized rating system reshaped the current internal rating system, constantly improves the scientific and detailed risk description capability of the model, and provides technical support for project decision-making.

Comprehensive Due Diligence System. Our project due diligence system comprehensively considers the operating risk, credit risk and legal risk of the lessee subject, the risk of the lessee's affiliated company, and guarantee of leased assets to lessor. The business manager conducts in-depth analysis of the lessee's basic situation, financial performance, credit status, and the purpose of financing through various due diligence investigations, based on full collection of information, assesses project risks and designs project plans to form due diligence report which shall be submitted to the assessment managers. The assessment manager conducts relevant verification and further risk assessment on the due diligence report, and issues an assessment report. Based on the investigation of the genuine existence of the leased assets, ownership and the reasonableness of its prices, our asset manager conducts a comprehensive assessment of the value preservation, controllability, and liquidity of the leased property and forms a leased assets report. Through due diligence and project analysis from multiple perspectives, we ensure that the overall risk of the project is controllable.

Rigorous and Scientific Project Approval Decision. We ensure the rigor and scientific nature of project approval through multi-person decision-making and professional decision-making. The multi-person decision-making mechanism means that at the stage of lease admission, project initiation and due diligence, three or more employees conduct special discussions and make decisions together to improve the accuracy and comprehensiveness of decision-making and ensure rigorous project decision-making. Professional decision-making refers to depending on the distribution characteristics of the Group's business in the five major industries of artificial intelligence, carbon peaking and carbon neutrality, life sciences & healthcare, intelligent manufacturing and Internet-based products & services, each of our assessment managers and assessment committee members was responsible for assessing projects from the industry in which they specialized to ensure that they focus on the subdivided industry and form a professional assessment experience. The assessment committee of each project is composed of assessment committee members specialized in different field and assess the project from the professional perspectives of industry, finance, and legal affairs.

Complete Post-Lease Management System. Our post-lease management system covers four aspects: lease assets management, lessee's operation monitoring, lease assets classification and non-performing asset disposal. In terms of lease assets management, we have formulated various requirements for leased assets management, including access conditions, monitoring measures and insurance guarantees for leased assets. In terms of lessee's operation monitoring, we adopt a combination of on-site and off-site inspections to closely monitor the lessee's operation. Once a risk signal is found, we will immediately start the investigation and issue disposal suggestions. In terms of lease assets classification, we classify the leased assets into five categories: normal, special mention, sub-standard, doubtful and loss, and regularly evaluate and adjust them, and take timely countermeasures for the deteriorated assets. In terms of non-performing asset disposal, we form interdepartmental team to analyze the disposal methods of non-performing assets and form targeted treatment plans, including taking relevant legal procedures, selling lease assets or other measures. Based on the accumulation of our long-term professional development, we can quickly dispose of non-performing assets and recover the financial lease receivables at a reasonable price in the existing customer network.

5.2 Interest Rate Risk

The Group's interest rate risk arises from the mismatch between the maturity date of interest-earning assets and interest-bearing liabilities and the contract repricing date. The risk of changes in the cash flow of financial instruments caused by the Group's interest rate changes was mainly related to financial lease. The Group adopts the following measures to manage its interest rate risk:

- Optimizing the time difference between the maturity dates of interest-earning assets and interest-bearing liabilities and the contract repricing date; and

- Managing the difference between the pricing of interest-earning assets and interest-bearing liabilities and Loan Prime Rate (the "**LPR**") and the benchmark interest rate of the People's Bank of China.

5.3 Liquidity Risk

Liquidity risk refers to our potential failure to secure sufficient funding at reasonable costs, leading to our failure to satisfy our various payment obligations and to support our business operations and expansions.

In terms of liquidity risk management, the Group held cash and cash equivalents that the senior management considered sufficient and implemented comprehensive policies and process monitoring to meet our operating and sustainable development needs. Our management supervised the use of financing and ensured compliance with corresponding financing agreements.

During the Reporting Period, the liquidity position of the Group has been sound. By assessing and monitoring the liquidity situation, the Group allocated financial assets and financial liabilities as a whole to improve its ability to ensure liquidity at a reasonable cost in a timely manner.

5.4 Foreign Currency Risk

The functional currency of the Group is RMB. The majority of the Group's revenue and expenditures are denominated in RMB. The Group currently does not have any foreign currency hedging policies. The management will continue to monitor the Group's foreign exchange risk exposure and consider adopting prudent measures as appropriate.

6. PLEDGE OF GROUP ASSETS

As at the end of the Reporting Period, the Group held loans and receivables of RMB4,735.0 million pledged to secure borrowings, and cash of RMB1.8 million pledged for bank acceptances, factorings and asset-backed securities.

7. MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the Reporting Period, the Group had no significant investment and significant acquisition or disposal of subsidiaries, associates and joint ventures.

8. HUMAN RESOURCES

8.1 Staff and Remuneration

As of June 30, 2022, the Group had a total of 136 employees (As of December 31, 2021: 129), with approximately 100.0% of our staff holding bachelor's degrees or above, and approximately 64.0% holding master's degrees or above (49 employees obtained bachelor's degrees, 84 employees obtained master's degrees and 3 employees obtained doctor's degrees). Approximately 15.4% (21 employees) have intermediate professional titles or above; and approximately 5.9% (8 employees) have associate senior professional titles or above.

The Group's employees are generally stable with a high retention rate. In addition to the normal flow of people, approximately 37.5% of our employees (51 employees) have been worked for the Group for over five years. We did not experience any material labor disputes during the Reporting Period.

During the Reporting Period, the staff costs of the Group amounted to approximately RMB32.4 million (the corresponding period of last year: approximately RMB32.0 million).

8.2 Incentive Schemes

We have established and implemented flexible and efficient employee incentive schemes to correlate the remuneration of our employees with their overall performance and contribution to the Group and have established a performance-based remuneration awards system that combines their performance and accomplishment of work targets. Employees of the Group are promoted in terms of positions, seniority, overall performance, as well as professional and administrative classification, with a clear career path. We implement comprehensive performance evaluations and well-directed training programs for all staff every year, in accordance with our business objective obligations and achievement of key objectives. Since the date of incorporation of the Company and up to the end of the Reporting Period, the Group did not adopt any share option scheme.

8.3 Employee Benefits

In accordance with applicable PRC laws and regulations, we have made contributions to social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing provident funds for our employees. We also provided supplemental commercial medical insurance and accident insurance in addition to the social security insurance and housing provident funds above.

8.4 Employee Training

The Group valued staff training and established a preliminary training system based on job competency. In order to encourage the staff to study and upgrade themselves and cultivate and establish a team of professional and highly efficient talents, the Group adopted a people-oriented approach to provide trainings based on actual needs, and organized various training sessions on operating management and professional skills based on the principle of classified management, covering employees of all levels from front-line staff to senior management. The Group also implemented the plan for the cultivation of cadres and young talents.

9. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

9.1 Contingent Liabilities

As at the end of the Reporting Period, the Group did not have any material contingent liabilities.

9.2 Capital Commitments and Credit Commitments

The Group has the following capital commitments and non-cancellable credit commitments as of the dates indicated:

	As of June 30, 2022	As of December 31, 2021
	RMB'000	*RMB'000*
Credit commitments [1]	**49,000**	5,000
Capital commitments [2]	**202,340**	3,120

Notes:

(1) The Group's non-cancellable credit commitments were primarily finance leases that have been contracted, but not yet commenced.

(2) As at the end of the Reporting Period, the contracted capital commitments included the unpaid capital commitment to Beijing Zhongnuo Tongchuang Investment Fund Management Co., Ltd. and Beijing Zhongnuo Yuanjian Chuangxin Investment Fund Center (Limited Partnership) of RMB202.3 million.

10. USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The Company issued 333,334,000 H Shares at the issue price of HK$1.52 per H share in connection with the global offering.

The H Shares have been listed on the Stock Exchange since January 21, 2020. The Group received net proceeds (after deduction of underwriting commission and related costs and expenses) from the global offering of approximately RMB405.8 million.

We proposed to gradually utilize the net proceeds from the initial public offering in the following manner as disclosed in the prospectus of the Company dated December 31, 2019:

- Approximately 70% of the net proceeds, or RMB284.0 million, will be used to expand our business operations;
- Approximately 10% of the net proceeds, or RMB40.6 million, will be used to improve our information systems;
- Approximately 10% of the net proceeds, or RMB40.6 million, will be used to recruit more talented specialized personnel with valuable experience, knowledge and skillsets; and
- Approximately 10% of the net proceeds, or RMB40.6 million, will be used to replenish our working capital.

The table below sets forth a detailed breakdown and description of the use of net proceeds from the listing of the Company:

Use of proceeds	**Amounts expected to be utilized as disclosed in the prospectus** *(RMB in million)*	**Utilized amount** *(RMB in million)*	**Unutilized amount** *(RMB in million)*	**Expected time of use**
Expansion of our business operations	284.0	284.0	–	N/A
Improvement of our information systems	40.6	20.3	20.3	To be gradually used until 2023
Recruitment of talents	40.6	40.6	–	N/A
Replenishment of working capital	40.6	40.6	–	N/A

11. BUSINESS OUTLOOK

In the next five years, the Group will build a business model of finance lease + stock option, equity investment and integration of industry and finance, and become a "world-class financial partner of science and technology innovation enterprises". During the "14th Five Year Plan" period, we will quickly expand to nation-wide coverage through the "business partnership" model, cover and interact in-depth with science and technology innovation enterprises in core economic zones across China to grow and optimize the number and scale of customers; improve internal operation efficiency and customer experience through "Data-Driven" construction; by developing "Leasing-based Equity Investment" and "Integration of industry and finance" businesses, we will grow and deepen our financial value chain and optimize our profit structure.

OTHER INFORMATION

1. CORPORATE GOVERNANCE PRACTICE

The Company has adopted the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as its own code of corporate governance. The Company has committed to maintaining high standards of corporate governance in order to safeguard the interests of the shareholders of the Company (the "**Shareholders**") and enhance the corporate value and accountability of the Company.

To the best knowledge of the Directors, during the Reporting Period, the Company has complied with all applicable code provisions set out in the CG Code. The Board will continue to review and improve the Company's corporate governance practice to ensure its compliance with the CG Code.

2. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has formulated the Code of Dealing in Securities of the Company by Directors, Supervisors, Senior Management and Personnel with Inside Information (《董事、監事、高級管理人員及其他內幕信息知情人員證券交易管理制度》) (the "**Code of Dealing**") as the code of conduct of the securities transactions carried out by the Directors, Supervisors, senior management and personnel with inside information, the terms of which are not less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules.

Specific enquiry has been made with the Directors and Supervisors, and they have confirmed their compliance with the required standards set out in the said Code of Dealing during the Reporting Period.

3. INTERIM DIVIDEND

The Board does not recommend to declare any interim dividends for the six months ended June 30, 2022 (2021 interim: Nil).

4. AUDIT COMMITTEE

The Audit Committee consists of five members, being Mr. WU Tak Lung, Mr. CHENG Dongyue and Ms. LIN Zhen, independent non-executive Directors, Mr. LOU Yixiang and Mr. DU Yunchao, non-executive Directors. The Audit Committee is chaired by Mr. WU Tak Lung who has a professional qualification in accountancy as required by the Listing Rules.

The Audit Committee has discussed with the management and the external auditor and reviewed the unaudited interim consolidated financial statements of the Group for the six months ended June 30, 2022 and the interim results. In addition, KPMG, the external auditor of the Company, has independently reviewed the unaudited interim consolidated financial statements of the Group for the six months ended June 30, 2022.

5. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

6. MATERIAL LEGAL, LITIGATION AND ARBITRATION MATTERS

As at the end of the Reporting Period, the Company has no pending litigation as defendant.

7. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

The Group did not have any significant events subsequent to the end of the Reporting Period.

8. PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement was published on the website of the Stock Exchange (www.hkexnews.hk) and on the website of the Company (www.zgclease.com). 2022 interim report of the Company will be despatched to the Shareholders and published on the websites of Stock Exchange and the Company in due course.

This announcement was prepared in both Chinese and English versions, where there is a discrepancy between the Chinese and English versions, the English version shall prevail.

By order of the Board
Zhongguancun Science-Tech Leasing Co., Ltd.
DUAN Hongwei
Chairman

Beijing, the PRC, August 19, 2022

As at the date of this announcement, the Board comprises Mr. HE Rongfeng and Mr. HUANG Wen as executive directors, Mr. DUAN Hongwei, Mr. LOU Yixiang, Mr. ZHANG Shuqing and Mr. DU Yunchao as non-executive directors, and Mr. CHENG Dongyue, Mr. Wu Tak Lung and Ms. LIN Zhen as independent non-executive directors.