Ziyuanyuan Holdings Group Limited
紫元元控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8223)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2020

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

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

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

The board of Directors (the "**Board**") hereby announces the unaudited condensed consolidated financial results of the Company and its subsidiaries (the "**Group**") for the three months ended 31 March 2020, together with the comparative unaudited figures for the corresponding period in 2019, as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2020

	Notes	**Three months ended 31 March 2020** *RMB'000* **(Unaudited)**	Three months ended 31 March 2019 *RMB'000* (Unaudited)
Revenue	*3*		
Finance lease income		**14,502**	17,532
Interest income from loan receivables		**496**	–
Total revenue		**14,998**	17,532
Bank interest income		**8**	53
Exchange gain/(loss), net		**8**	(66)
Staff costs		**(3,198)**	(3,634)
Impairment losses under expected credit loss ("**ECL**") model, net of reversal	*5*	**(1,565)**	(1,030)
Other operating expenses		**(2,855)**	(3,470)
Share of loss of an associate		**–**	(69)
Finance costs	*4*	**(2,301)**	(3,406)
Profit before taxation		**5,095**	5,910
Taxation	*6*	**(1,475)**	(1,868)
Profit and total comprehensive income for the period attributable to owners of the Company	*7*	**3,620**	4,042
Earnings per share			
– Basic *(RMB cents)*	*9*	**0.91**	1.01

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2020

	Share capital *RMB'000*	Share premium *RMB'000*	Capital and other reserves *RMB'000* *(Note (ii))*	Statutory reserves *RMB'000* *(Note (i))*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2020 (audited)	33,839	84,435	133,023	7,590	41,384	300,271
Profit and total comprehensive income for the period	–	–	–	–	3,620	3,620
At 31 March 2020 (unaudited)	33,839	84,435	133,023	7,590	45,004	303,891
At 1 January 2019 (audited)	33,839	84,435	133,023	5,392	26,709	283,398
Profit and total comprehensive income for the period	–	–	–	–	4,042	4,042
At 31 March 2019 (unaudited)	33,839	84,435	133,023	5,392	30,751	287,440

Notes:

(i) Pursuant to the articles of association of the subsidiaries established in the People's Republic of China (the "**PRC**"), it is required to appropriate 10% or an amount to be determined by its directors of its profit after taxation in accordance with the relevant PRC regulations before any distribution of dividends to owners each year to the statutory reserve until the balance reaches 50% of its registered capital.

(ii) Capital and other reserves represents (i) the reserve arising from the acquisition of 55% equity interest of Ziyuanyuan (Shenzhen) International Finance Leasing Company Limited ("**ZYY Finance Leasing**"), a subsidiary of the company, through acquisition of HK Lixin Trade Co., Limited ("**HK Lixin**"); (ii) the difference between the aggregate of the issued capital of HK Lixin and ZYY Finance Leasing directly attributable to Mr. Zhang Junshen and Mr. Zhang Junwei, the controlling individual shareholders of the Company (the "**Controlling Individual Shareholders**") and the net assets value of HK Lixin upon insertion of the Company and Honor Global Holding Limited as part of the group reorganisation; (iii) the consideration paid on the acquisition of the remaining 45% equity interest of ZYY Finance Leasing by HK Lixin from the Controlling Individual Shareholders; and (iv) Hero Global Limited, an immediate holding company of the Company, waived an amount due from HK Lixin, a subsidiary of the Company, amounting to RMB68,000,000, which was accounted for as a deemed capital contribution from a shareholder.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") as well as with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**GEM Rules**").

The shares of the Company were listed on GEM of the Stock Exchange on 9 July 2018.

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of the reporting periods, as appropriate.

The preparation of the unaudited consolidated financial results in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Except as described below, the accounting policies used in the preparation of these unaudited condensed consolidated financial statements for the three months ended 31 March 2020 are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31 December 2019.

Application of new and amendments to HKFRSs

In the current period, the Group has applied the new and amendments to HKFRSs issued by the HKICPA which are effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's unaudited condensed consolidated financial statements.

The application of new and amendments to HKFRSs in the current period has no material impact on the amounts reported and/or disclosures set out in these unaudited condensed consolidated financial statements.

3. REVENUE

Revenue represents finance leasing income and interest income on loan receivables received and receivable arising from the finance leasing activities in the PRC.

4. FINANCE COSTS

	Three months ended 31 March	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Imputed interests on interest-free deposits from finance lease customers	**1,097**	2,785
Interests on bank borrowing repayable within one year	**956**	564
Interests on lease liabilities	**248**	57
	2,301	3,406

5. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS ("ECL") MODEL, NET OF REVERSAL

	Three months ended 31 March	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Impairment losses recognised on:		
– finance lease receivable	**1,388**	1,030
– loan receivables	**177**	–
	1,565	1,030

6. TAXATION

	Three months ended 31 March	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
The charge comprises:		
Current tax		
– PRC Enterprise Income Tax	**1,210**	1,465
Deferred tax	**265**	403
	1,475	1,868

No provision for taxation in Hong Kong has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Under the Enterprise Income Tax Law of PRC (the "**EIT Law**") and the Implementation Regulation of the EIT Law, the subsidiaries in the PRC are subject to the tax rate of 25% during the reporting period.

7. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

	Three months ended 31 March	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Directors' emoluments	**629**	353
Other staff costs		
– Salaries, allowances and other staff benefits	**2,529**	3,116
– Staffs' retirement benefit scheme contributions	**213**	165
Total staff costs	**3,371**	3,634
Less: staff costs recognised as research and development costs in other operating expenses	**(173)**	–
Staff costs recognised in profit or loss	**3,198**	3,634
Research and development costs recognised as an expense (included in other operating expenses)	**293**	–
Written off plant and equipment	**–**	15
Depreciation of plant and equipment	**110**	262
Depreciation of right-of-use assets	**1,020**	616
Total depreciation	**1,130**	878

8. DIVIDENDS

The board of Directors of the Company does not recommend the payment of an interim dividend in respect of the three months ended 31 March 2020 (three months ended 31 March 2019: Nil).

9. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to the owners of the Company is based on the following data:

	Three months ended 31 March	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings:		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	**3,620**	4,042

	Three months ended 31 March	
	2020	2019
	'000	*'000*
	(Unaudited)	(Unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**400,000**	400,000

No diluted earnings per share are presented as there were no potential dilutive ordinary shares in issue for the three months ended 31 March 2020 and 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors of the Company announces the unaudited condensed consolidated quarterly results of the Group for the three months ended 31 March 2020 together with the corresponding comparative figures.

BUSINESS REVIEW

The Group is principally engaged in providing equipment-based finance leasing services to SMEs customers in the medical device, printing and logistics industries in the PRC. For the three months ended 31 March 2020, the Group has been focusing on providing finance leasing services to the medical device, printing and logistics industries in various provinces, municipalities, and autonomous regions in the PRC, where the Group has established connections with industry players and gained operational expertise. The finance lease offered by the Group comprises direct finance leasing and sale-leaseback.

The diversified customer base of the Group consisting of SMEs customers in the target industries of medical device, printing and logistics in the PRC has also been growing. The Group provided services to approximately 675 SMEs customers in these three industries across 30 provinces, municipalities and autonomous regions in the PRC as at 31 March 2020.

FUTURE PROSPECTS

Since the outbreak of the novel coronavirus pneumonia epidemic at the beginning of 2020, the Group has taken a proactive approach and adopted various anti-epidemic measures to protect the safety and health of employees as top priority. At the same time, the postponed resumption of production and related epidemic control have adversely affected the Group's business. The Group is taking proactive measures and making active responses in an effort to minimise the losses caused by the epidemic. After the epidemic, the medical field will be a new economic breakthrough with significant value-added potentials. The Group initiated pre-emptive deployment of medical device leasing and related fields in order to snatch pioneer opportunities and support the industrial upgrade of the medical industry.

In the current market environment of the PRC, SMEs face challenges on the path of development due to high operational and financing costs. In recent years, the People's Bank of China enhanced its policy support to major fields including SMEs and fragile aspects of domestic economy and devoted greater effort in procuring financial institutions to provide proactive support to the financing of SMEs, all of which gave supportive measures to the finance leasing industry. The scale and number of SMEs in the PRC are gigantic and yet the finance leasing market got off to a late start. Along with the development of the financing lease and increasing demand in the financing market, the penetration of finance lease has been deepening constantly, paving the way of a promising outlook of the finance leasing market in the PRC.

The traditional finance leasing mode will limit the Group to further develop due to the constraint of industry scale and the high cost of travelling expenses. Development towards fintech has become a trend. By leveraging on the Group's accumulated experience in finance leasing and integration with the Fintech, the Group has successfully realized resource integration and mode innovation as well as the upgrading development of the industry model. During 2019, the Group has strongly transformed its finance leasing from traditional to a technological one, which is nearing completion. The business system, with the full efforts of the Group, is expected to be launched in the second quarter of 2020. The system can realize its core functions such as online finance leasing, industry information and information inquiry. It also has independent intelligent property right. The business system combines online with offline business to form a full-closed loop, which significantly improves the overall competitiveness of the Group.

The Group also plans to co-operate with the fellow subsidiaries to build a service platform, with the precise positioning of "medical industry plus Internet" during 2020. The Group are taking a series of high-tech action, big data, cloud computing, blockchain, intelligent terminal, to build an integrated industries Internet service platform based on financial service, asset transactions, industries training, medical alliances and value-added services of upstream and downstream industrial chain. It is a multi-dimensional and intelligent dynamic risk control system to create an ecological win-win circle for the entire industrial chain. Through the sharing economy model, it provides a full range of high precision inclusive services for the whole industries, so as to optimize the allocation of resources, improve the ability of overall finance leasing service to the industrial chain, bring deep reform to the entire industries as well as promote the healthy growth of domestic SMEs.

FINANCIAL REVIEW

Revenue

The Group's revenue was principally derived from finance leasing income for the provision of finance leasing services to its customers in medical devices, printing and logistics industries in the PRC. For the three months ended 31 March 2020, the Group's revenue decreased by approximately RMB2.5 million or approximately 14% to approximately RMB15.0 million (three months ended 31 March 2019: approximately RMB17.5 million). Revenue from the printing industry continues to be the largest revenue contributor of the Group. The decrease in revenue for the three months ended 31 March 2020 was mainly attributable to the outbreak of the novel coronavirus pneumonia epidemic at the beginning of 2020, resulting in the mandatory extension of holidays in the PRC and the quarantine measures taken by multiple provinces and cities had led to the temporary suspension of operations of the Group and our customers.

Staff cost

Staff costs include primarily Directors' remuneration, employee salaries, allowances and other staff benefits as well as employee retirement benefits scheme contributions. Staff costs decreased from RMB3.6 million for the three months ended 31 March 2019 to approximately RMB3.2 million for the three months ended 31 March 2020. Such decrease was mainly attributable to the decrease in head count.

Impairment losses on under expected credit loss ("ECL") model, net of reversal

The Group is not required to provide general provisions as commercial banks and other financial institutions which the China Banking Regulatory Commission regulates. The provisioning policies are based on the applicable accounting standards. The management assesses the measurement of ECL in relation to finance lease receivable and loan receivables. In determining the impairment of finance lease receivable and loan receivables, the management considers shared credit risk characteristics including industry types, historical past due information and lessees' creditworthiness for grouping, and assesses credit losses based on internal credit rating and on a forward looking basis with the use of appropriate models and assumptions relate to the economic inputs and the future macroeconomic conditions.

For the three months ended 31 March 2020, an additional impairment loss of approximately RMB1.6 million (three months ended 31 March 2019: approximately RMB1.0 million) was recognised primarily due to an increase in impairment allowance as a result of an increase in the probability of default as at 31 March 2020 in response to the outbreak of the novel coronavirus pneumonia epidemic at the beginning of 2020.

Other operating expenses

Other operating expenses include primarily travelling expenses, sales and marketing expenses, depreciation of right-of-use assets and other expenses. Other operating expenses decreased from approximately RMB3.5 million for the three months ended 31 March 2019 to approximately RMB2.9 million for the three months ended 31 March 2020. The decrease was mainly due to the decrease in travelling expenses and sales and marketing expenses, resulting from temporary suspension of operations of the Group during the period in response to the outbreak of the novel coronavirus pneumonia epidemic at the beginning of 2020.

Finance costs

Finance costs consist of (i) imputed interest expense on interest-free deposits from finance lease customers; (ii) interest on bank borrowing; and (iii) interests on lease liabilities. Finance costs decreased from approximately RMB3.4 million for the three months ended 31 March 2019 to approximately RMB2.3 million for the three months ended 31 March 2020. The decrease was mainly due to imputed interest expense on interest-free deposits from finance lease customers decreased from approximately RMB2.8 million for the three months ended 31 March 2019 to approximately RMB1.1 million for the three months ended 31 March 2020 as a result in the reduction in the amount of deposits from finance lease customers, which offsetting (i) the interest on bank borrowing increased from approximately RMB0.6 million for the three months ended 31 March 2019 to approximately RMB1.0 million for the three months ended 31 March 2020; and (ii) the interests on lease liabilities increased from approximately RMB0.1 million for the three months ended 31 March 2019 to approximately RMB0.2 million for the three months ended 31 March 2020.

Taxation

The PRC enterprise income tax rate applicable to the Group's subsidiaries is 25%.

Profit and total comprehensive income attributable to owners of the Company

For the three months ended 31 March 2020 and 2019, the Group's profit and total comprehensive income attributable to owners of the Company was approximately RMB3.6 million and RMB4.0 million, respectively. The decrease of profit and total comprehensive income attributable to owners of the Company for the three months ended 31 March 2020 was mainly attributable to the decrease in revenue and increase in impairment losses under ECL model, net of reversal, which offsetting the decrease in staff costs, other operating expenses and finance costs as compared to the corresponding period in 2019.

Dividend

The Board of Directors of the Company does not recommend the payment of an interim dividend in respect of the three months ended 31 March 2020 (three months ended 31 March 2019: Nil).

CAPITAL STRUCTURE

The shares of the Company (the "**Shares**") were successfully listed on the GEM of the Stock Exchange on 9 July 2018. There has been no change in the capital structure of the Group since then. The share capital of the Group only comprises ordinary Shares.

As at 31 March 2020, the Company's issued share capital was HK$40,000,000 and the number of its issued ordinary Shares was 400,000,000 of HK$0.1 each.

COMPETING INTEREST

For the three months ended 31 March 2020, none of the Directors or the controlling shareholders of the Company or their respective close associates (as defined in the GEM Listing Rules) is interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group or has any conflicts of interest with the Group.

DEED OF NON-COMPETITION

The controlling shareholders of the Company, namely Mr. Zhang Junshen (through Hero Global Limited), Mr. Zhang Junwei (through Icon Global Holding Limited), (the "**Controlling Shareholders**") entered into a deed of non-competition dated 12 June 2018 ("**Deed of Non-competition**") in favour of the Company (for itself and as trustee for each of its subsidiaries). For details of the Deed of Non-competition, please refer to the section headed "Relationship with Controlling Shareholders – Non-competition Undertaking" in the Company's prospectus dated 25 June 2018. Each of the Controlling Shareholders has confirmed that none of them is engaged in, or interested in any business (other than the Group) which, directly or indirectly, competes or may compete with the business of the Group.

The independent non-executive Directors have also reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-competition have been complied with by each of the Controlling Shareholders during the period and up to the date of this announcement.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period and up to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES

The Company considers the maintenance of a high standard of corporate governance important to the continuous growth of the Group. The Company's corporate governance practices are based on code provisions as set out in the Corporate Governance Code (the "**CG Code**") as contained in Appendix 15 of the GEM Listing Rules. Other than the deviation from code provision A.2.1, the Company has adopted and complied with, where applicable, the CG Code to ensure that the Group's business activities and decision-making processes are regulated in a proper and prudent manner.

Up to the date of this announcement, other than the deviation from code provision A.2.1, the Company complied with the provisions of the CG Code as set out in Appendix 15 to the GEM Listing Rules.

CODE PROVISION A.2.1

In accordance with the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Board is of the view that although Mr. Zhang Junshen is the chairman and the chief executive officer of the Company, this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets regularly to discuss issues affecting operations of the Company. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Zhang Junshen and believes that his appointment to the posts of chairman and chief executive officer is beneficial to the business prospects of the Company.

EVENT AFTER THE REPORTING PERIOD

The Directors are not aware of any significant event which had material effect on the Group subsequent to 31 March 2020 and up to the date of this announcement.

INTEREST OF THE COMPLIANCE ADVISER

As notified by Guoyuan Capital (Hong Kong) Limited ("**Guoyuan Capital**"), the Company's compliance adviser, save for the compliance adviser service agreement entered into between the Company and Guoyuan Capital dated 28 March 2017, none of Guoyuan Capital or its directors, employees or associates (as defined in the GEM Listing Rules) had any interest in the Group as at 31 March 2020, which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct ("**Code of Conduct**") regarding securities transactions by the Directors. The Company has confirmed, having made specific enquiry of the Directors, that all the Directors have complied with the Code of Conduct for the three months ended 31 March 2020 and up to date of this announcement.

AUDIT COMMITTEE AND REVIEW OF QUARTERLY RESULTS

The Group has established an audit committee (the "**Audit Committee**") pursuant to a resolution of the Directors passed on 12 June 2018 in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and with written terms of reference in compliance with the CG Code.

The Audit Committee currently consists of our non-executive Director, namely Mr. Lyu Di and two of our independent non-executive Directors, namely Mr. Chan Chi Fung Leo and Mr. Li Zhensheng and the chairman is Mr. Chan Chi Fung Leo, who holds the appropriate professional qualifications as required under Rules 5.05(2) and 5.28 of the GEM Listing Rules.

The financial information in this announcement has not been audited. The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the three months ended 31 March 2020 and is of the opinion that the preparation of such statements complied with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable legal requirements, and that adequate disclosures had been made.

By order of the Board
Ziyuanyuan Holdings Group Limited
Zhang Junshen
Chairman and Chief Executive Officer

Hong Kong, 8 May 2020

As at the date of this announcement, the executive Directors are Mr. Zhang Junshen (Chairman and Chief Executive Officer) and Mr. Zhang Junwei, the non-executive Director is Mr. Lyu Di, and the independent non-executive Directors are Mr. Chan Chi Fung Leo, Mr. Li Zhensheng and Mr. Chow Siu Hang.