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, 2021

FINANCIAL HIGHLIGHTS

- For the six months ended June 30, 2021, the revenue amounted to approximately RMB308.7 million, representing an increase of approximately 8.5% as compared with that of approximately RMB284.4 million for the corresponding period of 2020.

- For the six months ended June 30, 2021, the profit before taxation amounted to approximately RMB129.3 million, representing an increase of approximately 24.1% as compared with that of approximately RMB104.2 million for the corresponding period of 2020.

- For the six months ended June 30, 2021, the profit for the year amounted to approximately RMB96.9 million, representing an increase of approximately 24.3% as compared with that of approximately RMB77.9 million for the corresponding period of 2020.

- As of June 30, 2021, the total assets amounted to approximately RMB8,236.0 million, representing an increase of approximately 0.9% as compared with that of approximately RMB8,165.1 million as of December 31, 2020.

- As of June 30, 2021, the total shareholders' equity amounted to approximately RMB1,954.7 million, representing an increase of approximately 2.0% as compared with that of approximately RMB1,915.8 million as of December 31, 2020.

- For the six months ended June 30, 2021, the return on average equity was 10.0%.

- For the six months ended June 30, 2021, 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, 2021 (the "**Reporting Period**") with the comparative figures for the corresponding period or the end of 2020 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended June 30, 2021 – unaudited
*(Expressed in Renminbi ("**RMB**"))*

		Six months ended June 30,	
	Note	**2021**	2020
		RMB'000	*RMB'000*
Interest income		**253,304**	232,766
Advisory fee income		**55,346**	51,600
Revenue	*3*	**308,650**	284,366
Other net income	*4*	**6,386**	7,830
Interest expense	*5*	**(116,637)**	(115,441)
Operating expense	*6*	**(53,505)**	(50,257)
Impairment losses charged	*7*	**(21,388)**	(25,327)
Share of gains/ (losses) of associates		**5,805**	(935)
Net foreign exchange (losses)/gains		**(17)**	3,960
Profit before taxation		**129,294**	104,196
Income tax expense	*8*	**(32,430)**	(26,265)
Profit for the period		**96,864**	77,931
Attributable to:			
Equity shareholders of the Company		**96,864**	77,931
Profit for the period		**96,864**	77,931
Basic and diluted earnings per share *(in RMB)*	*9*	**0.07**	0.06

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2021 – unaudited
(Expressed in RMB)

	Six months ended June 30,	
	2021	2020
	RMB'000	*RMB'000*
Profit for the period	**96,864**	77,931
Other comprehensive income for the period	**–**	–
Total comprehensive income for the period	**96,864**	77,931
Attributable to:		
Equity shareholders of the Company	**96,864**	77,931
Total comprehensive income for the period	**96,864**	77,931

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2021 – unaudited

(Expressed in RMB)

	Note	**June 30, 2021** ***RMB'000***	December 31, 2020 *RMB'000*
Non-current assets			
Property and equipment	*10*	**8,031**	13,037
Intangible assets		**10,434**	10,305
Loans and receivables	*11*	**3,464,083**	3,431,726
Financial assets at fair value through other comprehensive income		**11,521**	11,521
Financial assets at fair value through profit or loss		**1,000**	–
Interest in associates		**78,133**	72,328
Other assets	*12*	**792**	544
Deferred tax assets	*13(b)*	**57,524**	53,224
		3,631,518	3,592,685
Current assets			
Loans and receivables	*11*	**4,071,360**	3,950,430
Other assets	*12*	**50,391**	70,836
Pledged and restricted deposits		**50,187**	137,830
Cash and cash equivalents	*14*	**432,553**	413,273
		4,604,491	4,572,369
Current liabilities			
Borrowings	*15*	**2,822,005**	3,068,052
Income tax payable	*13(a)*	**17,795**	26,319
Trade and other liabilities	*16*	**1,005,004**	1,301,405
		3,844,804	4,395,776
Net current assets		**759,687**	176,593
Total assets less current liabilities		**4,391,205**	3,769,278

	Note	June 30, 2021 RMB'000	December 31, 2020 RMB'000
Non-current liabilities			
Borrowings	*15*	**1,608,328**	1,084,994
Trade and other liabilities	*16*	**828,198**	768,469
		2,436,526	1,853,463
NET ASSETS		**1,954,679**	1,915,815
CAPITAL AND RESERVES	*17*		
Share capital		**1,333,334**	1,333,334
Reserves		**621,345**	582,481
Total equity attributable to equity shareholders of the Company		**1,954,679**	1,915,815
TOTAL EQUITY		**1,954,679**	1,915,815

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2021 – 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, 2020		1,000,000	252,761	13,814	1,239	–	124,442	1,392,256
Changes in equity for the six months ended June 30, 2020:								
Profit for the period		–	–	–	–	–	77,931	77,931
Total comprehensive income		–	–	–	–	–	77,931	77,931
Issue of H shares	*17(a)/(b)*	333,334	78,388	–	–	–	–	411,722
Dividends approved in respect of the previous year	*17(d)*	–	–	–	–	–	(50,000)	(50,000)
Balance at June 30, 2020 and July 1, 2020		1,333,334	331,149	13,814	1,239	–	152,373	1,831,909
Changes in equity for the six months ended December 31, 2020								
Profit for the period		–	–	–	–	–	83,535	83,535
Other comprehensive income		–	–	–	371	–	–	371
Total comprehensive income		–	–	–	371	–	83,535	83,906
Appropriation to statutory reserve	*17(c)(i)*	–	–	16,122	–	–	(16,122)	–
Appropriation to general reserve	*17(c)(iii)*	–	–	–	–	110,470	(110,470)	–
Balance at December 31, 2020		1,333,334	331,149	29,936	1,610	110,470	109,316	1,915,815

		Attributable to equity shareholders of the Company						
		Share capital	Capital reserve	Surplus reserve	Fair value reserve	General reserve	Retained profits	Total equity
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended June 30, 2021 – unaudited
(Expressed in RMB)

		Six months ended June 30,	
		2021	2020
	Note	***RMB'000***	*RMB'000*
Operating activities			
Cash (used in)/generated from operations		**(106,691)**	240,846
PRC income taxes paid	*13(a)*	**(45,254)**	(27,195)
Net cash (used in)/generated from operating activities		**(151,945)**	213,651
Investing activities			
Payment for purchase of equipment and intangible assets		**(1,022)**	(1,966)
Proceeds from disposal and redemption of investments		**–**	280
Payments on acquisition of investments		**(1,000)**	–
Net cash used in investing activities		**(2,022)**	(1,686)
Financing activities			
Proceeds from borrowings		**2,639,509**	1,429,766
Proceeds from capital contribution by equity shareholders		**–**	451,099
Repayment of borrowings		**(2,362,347)**	(1,693,885)
Interest paid		**(99,653)**	(100,908)
Payments for listing expenses		**–**	(17,258)
Capital element of lease rentals paid		**(719)**	(6,152)
Interest element of lease rentals paid		**(183)**	(447)
Other borrowing costs paid		**(3,352)**	(3,418)
Net cash generated from financing activities		**173,255**	58,797
Net increase in cash and cash equivalents		**19,288**	270,762
Cash and cash equivalents at January 1		**413,273**	252,106
Effect of foreign exchanges rates changes		**(8)**	87
Cash and cash equivalents at June 30	*14*	**432,553**	522,955

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 authorized for issue on August 20, 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 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 2020 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, *Covid-19-related rent concessions*
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest rate benchmark reform – phase 2*

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, 2021 and 2020, 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,	
		2021	2020
	Note	***RMB'000***	*RMB'000*
Interest income from finance leases		**22,487**	35,924
Interest income from sale-and-leaseback transactions		**230,817**	196,842
Advisory fee income	*(i)*		
– Policy advisory fee income		**39,490**	37,488
– Management advisory fee income		**15,856**	14,112
		308,650	284,366

Note:

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

4 OTHER NET INCOME

		Six months ended June 30,	
		2021	2020
	Note	***RMB'000***	*RMB'000*
Interest from deposits		**3,293**	2,480
Government grants	*(i)*	**3,000**	5,000
Others		**93**	350
		6,386	7,830

Note:

(i) The government grants were mainly provided to reward enterprises who complete initial public offering in well-known overseas capital. The grants were unconditional and were therefore recognized as income when received.

5 INTEREST EXPENSE

	Six months ended June 30, 2021 RMB'000	2020 RMB'000
Borrowings	**71,235**	69,088
Borrowings from related parties	**17,616**	23,786
Imputed interest expense on interest-free guaranteed deposits from lessees	**27,603**	22,120
Interest expense on lease liabilities	**183**	447
	116,637	115,441

6 OPERATING EXPENSE

Profit before taxation is arrived at after charging:

(a) Staff costs

	Six months ended June 30, 2021 RMB'000	2020 RMB'000
Salaries, bonuses and allowances	**23,688**	27,100
Social insurance and other benefits	**7,970**	4,912
Cash-settled share-based payments	**657**	–
Subtotal	**32,315**	32,012

(b) Other items

	Six months ended June 30, 2021 RMB'000	2020 RMB'000
Depreciation charge		
– owned equipment	**354**	262
– right-of-use assets	**5,584**	5,148
Amortisation cost of		
– intangible assets	**1,673**	931
– others	**184**	11
Other rental expenses	**792**	772

7 IMPAIRMENT LOSSES CHARGED

	Note	Six months ended June 30, 2021 RMB'000	2020 RMB'000
Loans and receivables	*11(c)*	**21,419**	25,131
Credit commitments		**(31)**	196
		21,388	25,327

8 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

		Six months ended June 30,	
		2021	2020
	Note	***RMB'000***	*RMB'000*
Current tax			
– PRC Enterprise Income Tax ("**EIT**") Provision for the period		**36,730**	31,127
Deferred income tax			
– Origination of temporary differences	*13(b)*	**(4,300)**	(4,862)
		32,430	26,265

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 RMB96.9 million (six months ended June 30, 2020: RMB77.9 million) and the weighted average of 1,333.3 million ordinary shares (six months ended June 30, 2020: 1,296.7 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, 2021 and 2020.

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, 2020	30,482	1,539	836	799	33,656
Additions	–	1,840	166	648	2,654
Disposals	–	(32)	–	–	(32)
As at December 31, 2020/ January 1, 2021	30,482	3,347	1,002	1,447	36,278
Additions	–	280	156	541	977
Disposals	–	(64)	(6)	–	(70)
As at June 30, 2021	30,482	3,563	1,152	1,988	37,185

	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, 2020	(9,563)	(839)	(535)	(371)	(11,308)
Charge for the year	(10,805)	(545)	(89)	(503)	(11,942)
Written back on disposals	–	9	–	–	9
As at December 31, 2020/ January 1, 2021	(20,368)	(1,375)	(624)	(874)	(23,241)
Charge for the period	(5,344)	(284)	(59)	(251)	(5,938)
Written back on disposals	–	19	6	–	25
As at June 30, 2021	(25,712)	(1,640)	(677)	(1,125)	(29,154)
Net carrying amount					
As at June 30, 2021	4,770	1,923	475	863	8,031
As at December 31, 2020	10,114	1,972	378	573	13,037

11 LOANS AND RECEIVABLES

Loans and receivables by nature:

	Note	**June 30, 2021** ***RMB'000***	December 31, 2020 *RMB'000*
Minimum finance lease receivables			
Within one year		**575,871**	652,869
More than one year and not more than five years		**245,164**	269,732
Gross amount of finance lease receivables		**821,035**	922,601
Less: Unearned finance income		**(55,887)**	(69,507)
Net amount of finance lease receivables		**765,148**	853,094
Receivables from sale-and-leaseback transactions	*(i)*	**6,974,068**	6,711,416
Loans and receivables		**7,739,216**	7,564,510
Less:			
Provision for finance lease receivables		**(90,865)**	(84,178)
Provision for receivables from sale-and-leaseback transactions		**(112,908)**	(98,176)
Provision for loans and receivables		**(203,773)**	(182,354)
Total		**7,535,443**	7,382,156

Note:

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

Analysis for reporting purpose as:

	June 30, 2021	December 31, 2020
	RMB'000	*RMB'000*
Non-current assets	**3,464,083**	3,431,726
Current assets	**4,071,360**	3,950,430
Total	**7,535,443**	7,382,156

(a) Present value of minimum finance lease receivables:

	June 30, 2021	December 31, 2020
	RMB'000	*RMB'000*
Not more than one year	**531,834**	596,374
More than one year and not later than five years	**233,314**	256,720
Total	**765,148**	853,094

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

	Six months ended June 30, 2021			
	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total**
Net amount of loans and receivables	**7,262,518**	**11,497**	**465,201**	**7,739,216**
Less: Allowances for impairment losses	**(42,309)**	**(477)**	**(160,987)**	**(203,773)**
Carrying amount of loans and receivables	**7,220,209**	**11,020**	**304,214**	**7,535,443**

	December 31, 2020			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Net amount of loans and receivables	7,067,972	46,180	450,358	7,564,510
Less: Allowances for impairment losses	(35,826)	(1,989)	(144,539)	(182,354)
Carrying amount of loans and receivables	7,032,146	44,191	305,819	7,382,156

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

	Six months ended June 30, 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 12-month ECL	**–**	**–**	**–**	**–**
– to lifetime ECL not credit-impaired	**(35)**	**81**	**(46)**	**–**
– to lifetime ECL credit-impaired	**(15)**	**(1,866)**	**1,881**	**–**
Charge	**6,533**	**273**	**14,613**	**21,419**
Balance at June 30, 2021	**42,309**	**477**	**160,987**	**203,773**

	December 31, 2020			
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance at January 1, 2020	25,391	2,422	109,817	137,630
Transfer:				
– to 12-month ECL	15	–	(15)	–
– to lifetime ECL not credit-impaired	(296)	296	–	–
– to lifetime ECL credit-impaired	(498)	(2,051)	2,549	–
Charge	11,214	1,322	32,188	44,724
Balance at December 31, 2020	35,826	1,989	144,539	182,354

12 OTHER ASSETS

	Note	**June 30, 2021** *RMB'000*	December 31, 2020 *RMB'000*
Non-current assets			
Other assets		**792**	544
Current assets			
Deductible value-added tax (VAT)		**37,714**	56,361
Advance payments		**4,844**	7,695
Due from related parties	*20(c)*	**2,675**	2,675
Notes receivable		**900**	1,040
Other receivables		**4,258**	3,065
		50,391	70,836
Total		**51,183**	71,380

13 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Income tax payable

	June 30, 2021 *RMB'000*	December 31, 2020 *RMB'000*
At the beginning of the period/year	**26,319**	14,494
Provision for income tax for the period/year	**36,730**	63,770
Income tax paid	**(45,254)**	(51,945)
At the end of the period/year	**17,795**	26,319

(b) The components of deferred tax assets/ (liabilities) recognized 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, 2020	(2,006)	–	6,153	34,496	4,978	43,621
(Credited)/charged to profit or loss	–	–	(3,085)	11,117	1,695	9,727
Credited to other comprehensive income	(124)	–	–	–	–	(124)
December 31, 2020/January 1, 2021	(2,130)	–	3,068	45,613	6,673	53,224
(Credited)/charged to profit or loss	–	(1,397)	2,612	5,347	(2,262)	4,300
June 30, 2021	(2,130)	(1,397)	5,680	50,960	4,411	57,524

14 CASH AND CASH EQUIVALENTS

	June 30, 2021 *RMB'000*	December 31, 2020 *RMB'000*
Cash on hand	**1**	7
Deposits with banks	**432,552**	413,266
Cash and cash equivalents	**432,553**	413,273

15 BORROWINGS

	June 30, 2021 *RMB'000*	December 31, 2020 *RMB'000*
Bank loans		
– pledged	**1,599,630**	1,394,087
– unsecured	**980,063**	940,915
Borrowings from related parties		
– pledged	**1,160,000**	800,000
Asset-backed securities	**690,640**	1,018,044
	4,430,333	4,153,046

Analysis for reporting purpose as:

	June 30, 2021 *RMB'000*	December 31, 2020 *RMB'000*
Non-current liabilities	**1,608,328**	1,084,994
Current liabilities	**2,822,005**	3,068,052
	4,430,333	4,153,046

As at June 30, 2021, the borrowings were repayable as follows:

	June 30, 2021 *RMB'000*	December 31, 2020 *RMB'000*
Within one year	**2,822,005**	3,068,052
After 1 year but within 2 years	**1,511,053**	981,726
After 2 years but within 5 years	**97,275**	103,268
	4,430,333	4,153,046

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

	June 30, 2021	December 31, 2020
Range of interest rates:	**3.85% – 5.46%**	3.85% – 5.70%

16 TRADE AND OTHER LIABILITIES

	June 30, 2021	December 31, 2020
	RMB'000	*RMB'000*
Current liabilities		
Notes payable	**472,936**	738,322
Guaranteed deposits from lessees	**333,997**	370,252
VAT to be collected in the following period	**64,932**	75,608
Dividends payable	**58,000**	–
Accounts payable	**32,829**	42,349
Accrued staff costs	**19,773**	31,261
Interest payable	**14,353**	25,155
Lease liabilities	**2,918**	1,946
VAT payable and other tax payable	**1,882**	784
Receipts in advance	**1,321**	7,583
Other payables	**2,063**	8,145
	1,005,004	1,301,405
Non-current liabilities		
Guaranteed deposits from lessees	**709,613**	644,903
Deferred revenue	**86,127**	86,856
VAT to be collected in the following period	**28,797**	32,525
Lease liabilities	**2,898**	4,048
Accrued staff costs	**696**	39
Provision for credit commitments	**67**	98
	828,198	768,469
Total	**1,833,202**	2,069,874

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 shares. 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)》)" issued on April 16, 2020, the Company maintained a general reserve within equity, through the appropriation of profit, which should be no less than 1.5% of the year end balance of gross risk-bearing assets.

(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, 2020: nil). Dividend which was approved but not paid during the interim period was RMB58.0 million (six months ended June 30, 2020: RMB50.0 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, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVOCI	**–**	**–**	**11,521**	**11,521**
Financial assets at FVTPL	**–**	**–**	**1,000**	**1,000**
Total	**–**	**–**	**12,521**	**12,521**

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Financial assets at FVOCI	–	–	11,521	11,521

For the six months ended June 30, 2021 and 2020, 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, 2021	December 31, 2020
	RMB'000	*RMB'000*
Unlisted investments:		
At the beginning of the period/year	**11,521**	11,026
Payments on acquisition of investments	**1,000**	–
Net unrealized gains or losses recognized in other comprehensive income during the period/year	**–**	495
At the end of the period/year	**12,521**	11,521

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, 2021, the Group's non-cancellable lease commitments amounted to RMB15.0 million (December 31, 2020: RMB38.1 million).

(b) Capital commitments

As at June 30, 2021, 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) ("**Beijing Zhongnuo**") and Jiangsu Zhongguancun Zhongnuo Xietong Investment Fund (Limited Partnership) (江蘇中關村中諾協同投資基金合夥企業(有限合夥)) ("**Jiangsu Zhongnuo**") was RMB3.1 million and RMB24.5 million (December 31, 2020: RMB3.1 million and RMB24.5 million), 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,	
	2021	2020
	RMB'000	*RMB'000*
Key management personnel remuneration	**6,590**	6,369

(b) Transaction amounts with related parties:

	Six months ended June 30,	
	2021	2020
	RMB'000	*RMB'000*
Trade related		
Interest income from loans and receivables to a related party	**111**	233
Repayment of loans and receivables from a related party	**2,212**	2,172
Non-trade related		
Borrowing related		
Repayment of borrowings from a related party	**840,000**	300,000
Borrowings from a related party	**1,200,000**	300,000
Interest expenses arising from borrowings from a related party	**17,616**	23,786
Lending related		
Repayment from a related party	**–**	280
Guarantee related		
Release of guarantees from a related party	**82,305**	4,948
Others		
Payment for the lease of house rental, property management and parking fee to a related party	**3,149**	6,273

(c) The balances of transactions with related parties:

	June 30, 2021	December 31, 2020
	RMB'000	*RMB'000*
Trade related		
Loans and receivables from a related party	**2,318**	4,410
Security deposits payable to a related party	**1,585**	1,585
Non-trade related		
Borrowing related		
Borrowings payable to a related party	**1,160,000**	800,000
Interest payable to a related party	**2,021**	12,396
Guarantee related		
Balance of guarantees from a related party	**269,163**	351,468
Others		
Deposits for rental	**2,674**	2,674
Other receivables from a related party	**1**	1
Lease prepayment to a related party	**–**	3,123

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, 2021, the number of consolidated structured entities of the Group was two (December 31, 2020: two). As at June 30, 2021, the total assets of the consolidated structured entities amounted to RMB740.3 million (December 31, 2020: RMB1,067.8 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, 2021	December 31, 2020
	RMB'000	*RMB'000*
Total carrying amount of liabilities for SARs	**696**	39
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, 2021	December 31, 2020
Fair value at measurement date *(in RMB)*	**0.17**	0.29
Share price *(in HKD)*	**0.95**	1.1
Exercise price *(in RMB)*	**1**	1
Expected volatility	**36.86%**	35.73%
Expected life *(year)*	**4.5**	5.0
Expected dividends	**0%**	0%
Risk-free interest rate	**0.78%**	0.48%

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, 2021	12,670,000	RMB1
Granted during the period	–	–
Outstanding at June 30, 2021	12,670,000	RMB1
Exercisable at June 30, 2021	–	–

The SARs outstanding at June 30, 2021 had an exercise price of RMB1 and a remaining contractual life of 4.5 years.

(d) Expense recognized in profit or loss

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

MANAGEMENT DISCUSSION AND ANALYSIS

	For the six months ended June 30,		For the year ended December 31,		
	2021	2020	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Operating Performance					
Revenue	**308,650**	284,366	587,565	515,340	412,783
Interest income	**253,304**	232,766	480,944	420,698	340,571
Advisory fee income	**55,346**	51,600	106,621	94,642	72,212
Other net income	**6,386**	7,830	19,079	18,759	16,331
Interest expense	**(116,637)**	(115,441)	(232,839)	(220,978)	(168,012)
Operating expense	**(53,505)**	(50,257)	(116,141)	(100,190)	(74,854)
Impairment losses charged	**(21,388)**	(25,327)	(44,467)	(27,768)	(27,364)
Share of losses of associates	**5,805**	(935)	(1,687)	(265)	–
Net foreign exchange (losses)/gains	**(17)**	3,960	3,999	(12)	–
Profit before taxation	**129,294**	104,196	215,509	184,886	158,884
Profit for the year	**96,864**	77,931	161,466	138,256	118,996
Basic and diluted earnings per Share *(in RMB)*	**0.07**	0.06	0.12	0.14	0.12
Profitability					
Return on average equity [1]	**10.0%**	9.7%	9.8%	10.3%	9.6%
Return on average assets [2]	**2.4%**	2.2%	2.1%	2.1%	2.2%
Net interest margin [3]	**3.6%**	3.6%	3.6%	3.4%	3.6%
Net interest spread [4]	**2.3%**	2.5%	2.4%	2.2%	2.4%
Net profit margin [5]	**31.4%**	27.4%	27.5%	26.8%	28.8%

Notes:

(1) Calculated by dividing 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 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, 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,		
	2021	2020	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets and liabilities					
Total assets	**8,236,009**	7,404,287	8,165,054	6,988,985	5,968,956
Loans and receivables	**7,535,443**	6,598,568	7,382,156	6,424,127	5,376,794
Total liabilities	**6,281,330**	5,572,379	6,249,239	5,596,729	4,681,195
Borrowings	**4,430,333**	3,894,791	4,153,046	4,158,382	3,319,747
Total equity	**1,954,679**	1,831,908	1,915,815	1,392,256	1,287,761
Net assets per share *(in RMB)*	**1.47**	1.37	1.44	1.39	1.29
Financial Indicators					
Liability to asset ratio(1)	**76.3%**	75.3%	76.5%	80.1%	78.4%
Risk asset to equity ratio(2)	**396.7%**	372.0%	397.4%	480.9%	437.6%
Liquidity ratio(3)	**119.8%**	113.2%	104.0%	117.7%	112.2%
Gearing ratio(4)	**226.7%**	212.6%	216.8%	298.7%	257.8%
Interest-earning asset quality					
NPA ratio(5)	**1.5%**	1.5%	1.5%	1.3%	1.3%
Allowance coverage ratio for NPAs(6)	**171.5%**	157.6%	163.2%	158.0%	151.2%

Notes:

(1) Calculated by dividing total liabilities by total assets as of the end of the period/year.

(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 period/year.

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

(5) Represent the percentage of non-performing assets ("**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

With the rapid development of a new round of scientific and technological revolution and industrial reform, scientific and technological innovation has become the main battlefield of the game of international strategies, and the competition for science and technology high ground is unprecedented. The first half of 2021 witnessed perplexing international environment and depressing world economy. The global industrial chain and supply chains are being reshaped, uncertain and unstable elements are emerging, and the impact of COVID-19 pandemic is further expanded.

Nevertheless, openness is the essence of economic globalization, and international cooperation on scientific and technological innovation is the an irresistible trend. In the first half of 2021, China's economy normalized with sustained economy recovery, rapidly progressing high-tech industries and leading consumption growth. *The Outline of the People's Republic of China 14th Five Year Plan for National Economic and Social Development and Long-Range Objectives Through the Year 2035* proposes to further modernize national industrial chain and supply chains, develop strategic emerging industries, accelerate the construction of a new development pattern with domestic circulation as the pillar and mutually complimenting domestic and international circulations, and promote scientific and technological innovation to play a key role in achieving smooth circulations. The Outline also established the core position of sustained innovation in China's overall modernization, taking self-reliance and self-improvement in science and technology as the strategic support for national development, and the importance of scientific and technological innovation has been raised to an unprecedented level. In addition, China's domestic innovation and entrepreneurship ecology is improving, and the vitality of market players is growing.

In terms of financial environment, in the first half of 2021, China continued to adhere to a prudent monetary policy, maintained reasonable and sufficient liquidity, further deepened the structural reform on the financial supply side, and continued to increase its support for the real economy and scientific and technological innovation. By the end of June 2021, the balance of broad money (M2) was RMB231.78 trillion, a year-on-year increase of 8.6%; the stock of social financing scale was RMB301.56 trillion, a year-on-year increase of 11%. In particular, the balance of RMB loans to the real economy was RMB184.54 trillion, a year-on-year increase of 12.6%. The comprehensive financing cost of the real economy decreased steadily. The contract interest rate of new loans issued by SMEs was 5.18%, 0.3 percentage points lower than that of the same period last year, and the contract interest rate of manufacturing loans was 4.13%, 0.25 percentage points lower than that of the same period last year. By the end of May 2021, the loan acquisition rate of science and technology based SMEs was 41.8%, and the loan balance increased by 8.75% over the beginning of the year.

In terms of industry development, as the financial product most closely linked to the real economy, financial leasing has played a vital role in serving SMEs, promoting industrial upgrading and optimizing resource allocation. It has become a major component of China's modern service industry and an important engine to promote economic growth, In particular, since the promulgation of *the Interim Measures for the Supervision and Administration of Financial Leasing Companies* (《融資租賃公司監督管理暫行辦法》) by China Banking and Insurance Regulatory Commission in June 2020, the financial leasing industry has been developing in a more standardized and high-quality manner. On the whole, the financial leasing industry presents a positive development trend of achieving "higher quality with less labor", which we believe will provide favorable conditions for the sustainable and healthy development of high-quality financial leasing companies in the industry.

Source: The People's Bank of China

1.2 Company's Response

2021 is the year to achieve the First Centennial Goal and embark on a new journey towards the Second Centennial Goal of building a modern socialist country in all respects. It is also the beginning of a new round of 14th Five Year Plan. In this key year of transformation and breakthrough, the Group adhered to the strategic positioning of serving science and technology based SMEs and upheld the mission of achieving financial innovation in science and technology to create greater value for our investors.

Business performance continued to improve. In the first half of 2021, the Group seized the key opportunities of transformation and upgrading, adhered to "professional, investment-oriented and digitalized" operation, and achieved steady business growth. In terms of finance leasing business, the Group further focused on strategic emerging industries such as new energy, new materials, artificial intelligence, biomedicine and high-end equipment, conducted vertical layout of the industrial chain, innovated and developed characteristic products such as intellectual property leasing, and created differentiated customer services, meeting the diversified financial needs of science and technology and new economy enterprises. In the first half of 2021, the lease principle amount of the Group reached RMB2,595.7 million, a year-on-year increase of 20.7%. In terms of investment business, the Group's "leasing-based equity investment" strategy has achieved initial results, with a total of 9 investment projects with an investment amount of RMB138.4 million. The investment fields involve life and health, new consumption, advanced manufacturing, new generation information technology and other fields. The invested projects demonstrate strong growth potential and excellent performance in the capital market. In the first half of 2021, the Group realized a total income of RMB308.7 million and a profit before taxation of RMB129.3 million, a year-on-year growth of 8.5% and 24.1% respectively.

Strategy upgrade started smoothly. Based on the opportunities and challenges brought by changes in the external environment, and based on considerations for long-term development, the Group introduced international professional consulting institutions, formulated strategic upgrading consultation reports, established the development goal of "becoming a domestic top-tire technology and financial service provider", and constructed the "1+3+N" strategy upgrading system, in an effort to provide unified guiding principles, clear paths and implementation and action guidelines for the development of the Group in the next five years.

Digital transformation achieved initial results. The Group is fully developing its information infrastructure, planning digital transformation with focuses on intelligent customer acquisition and intelligent risk control. During the reporting period, the Group completed and launched Phase I of the customer center to optimize customer experience and improve customer acquisition efficiency; entered the application stage of credit rating model to build the core competitive advantages with the aim of enabling business development, improving work efficiency and ensuring controllable risk; and carried out targeted post-lease management by establishing an asset monitoring system, integrating and mining data resources, exploring IOT access and other ways to achieve intelligent post-lease management.

Brand building reached new heights. In the first half of 2021, the Group successfully held the 6th "Maker in China" New Material Competition, the first national competition the Group held, where the Group interacted with front-line investment institutions in-depth, sought unicorns in the new material industry, and built a industry-academy-research-finance deep integration service platform. The Group also hosted the 13th China Environmental Industry Conference and Yixing Environmental Protection Industry High-Quality Development Conference jointly with industry associations to promote the integration and high-quality development of the environmental protection industry in multiple fields. By holding high-level events for technology entrepreneurs, the Group has successfully integrated rich resources, obtained a large number of quality technology-based SME customers, and greatly elevated its brand influence.

2. ANALYSIS OF PROFIT OR LOSS

2.1 Overview

During the Reporting Period, the Group realized a total revenue of RMB308.7 million, representing an increase of 8.5% as compared to the total revenue of RMB284.4 million for the corresponding period of last year, and the net profit for the period amounted to RMB96.9 million, representing an increase of 24.3% as compared to the net profit of RMB77.9 million for the corresponding period of last year.

2.2 Revenue

During the Reporting Period, the Group realized a total revenue of RMB308.7 million, representing an increase of 8.5% as compared to the total revenue of RMB284.4 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 RMB253.3 million, accounting for 82.1% of the total revenue and representing an increase of 8.8% as compared to that of the corresponding period of last year. Advisory fee income amounted to RMB55.3 million, representing an increase of 7.3% as compared to that of the corresponding period of last year, due to the Group actively delivered 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,				
	2021		2020		**Changes**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Interest income	**253,304**	**82.1%**	232,766	81.9%	8.8%
Advisory fee income	**55,346**	**17.9%**	51,600	18.1%	7.3%
Total revenue	**308,650**	**100.0%**	284,366	100.0%	8.5%

2.2.1 Interest Income

The interest income of the Group increased by 8.8% from RMB232.8 million for the corresponding period of last year to RMB253.3 million for the Reporting Period, accounting for 82.1% 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,					
	2021			2020		
	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	**7,651,863**	**253,304**	**6.6%**	6,661,543	232,766	7.0%

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, 2020 and 2021, we annualized our interest income by multiplying the interest income in the six months ended June 30, 2020 and 2021, 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 14.9% from RMB6,661.5 million for the corresponding period of last year to RMB7,651.9 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 6.6%, representing a deduction of 0.4% from 7.0% in the corresponding period of last year. The main reason is that the country continues to implement a stable monetary policy and maintains reasonable and sufficient liquidity. The Group adjusted its market strategy in a timely manner in accordance with changes in the market environment, and new interest income yield decreased from the previous year, resulting in a slight decrease in the average yield of interest-earning assets in the first half of 2021 compared with the same period last year, but basically stable.

2.2.2 *Advisory Fee Income*

During the Reporting Period, the advisory fee income of the Group increased by 7.3% from RMB51.6 million for the corresponding period of last year to RMB55.3 million for the Reporting Period, accounting for 17.9% 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,				
	2021		2020		**Changes**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Policy advisory fee income	**39,490**	**71.4%**	37,488	72.7%	5.3%
Management advisory fee income	**15,856**	**28.6%**	14,112	27.3%	12.4%
Total advisory fee income	**55,346**	**100.0%**	51,600	100.0%	7.3%

2.3 Interest Expense

During the Reporting Period, the interest expense of the Group amounted to RMB116.6 million, representing an increase of 1.0% as compared to RMB115.4 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, in addition to lower interest expense cost rate.

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,				
	2021		2020		**Changes**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Commercial banks	**52,656**	**45.1%**	43,779	37.9%	20.3%
Borrowings from related parties [1]	**17,616**	**15.1%**	23,786	20.6%	(25.9%)
Asset-backed securities	**18,579**	**15.9%**	25,309	21.9%	(26.6%)
Imputed on interest-free guaranteed deposits	**27,603**	**23.7%**	22,120	19.2%	24.8%
Lease liabilities	**183**	**0.2%**	447	0.4%	(59.1%)
Total interest expense	**116,637**	**100.0%**	115,441	100.0%	1.0%

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 borrowings for the periods indicated:

	For the six months ended June 30,					
	2021			2020		
Borrowings[1]	**Amount[2]**	**Interest expense**	**Average cost[3]**	Amount[2]	Interest expense	Average cost
	RMB'000	***RMB'000***		*RMB'000*	*RMB'000*	
Commercial banks	**2,491,735**	**52,656**	**4.2%**	1,878,158	43,779	4.7%
Borrowings from related parties	**922,857**	**17,616**	**3.8%**	1,114,286	23,786	4.3%
Asset-backed securities	**896,084**	**18,579**	**4.1%**	1,021,272	25,309	5.0%
Borrowings	**4,310,676**	**88,851**	**4.1%**	4,013,716	92,874	4.6%

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 borrowings for the six months ended June 30, 2020 and 2021.

(3) Calculated based on dividing the annualized interest expenses by the average of the monthly balance of borrowings for the six months ended June 30, 2020 and 2021.

During the Reporting Period, the Group held an interest expense cost on borrowings of 4.1%, representing a decrease as compared to the corresponding period of last year, mainly due to the Group's active financing cost management, 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,		
	2021	2020	**Changes**
	RMB'000	*RMB'000*	
Interest income	**253,304**	232,766	8.8%
Interest expenses	**(116,637)**	(115,441)	1.0%
Net interest income	**136,667**	117,325	16.5%
Interest income yield[1]	**6.7%**	7.1%	(5.6%)
Interest expense yield[2]	**4.4%**	4.6%	(4.3%)
Net interest spread[3]	**2.3%**	2.5%	(8.0%)
Net interest margin[4]	**3.6%**	3.6%	0.0%

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 2.3%, representing a decrease as compared to the corresponding period of last year, which was mainly because the shrink of the interest expense yield was less than that of interest income yield. For details of changes in interest expense yield, please refer to the discussion and analysis in item "2.3 Interest Expense" of this section. Compared with the same period of last year, the Group's net interest income increased by 16.5% and the average monthly balance of interest earning assets increased by 14.9%. The growth rate of net interest income is similar to that of the average monthly balance of interest earning assets, and hence the net interest margin of the Group of 3.6% remain unchanged from the same period of last year.

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 RMB6.4 million, a decrease of 18.4% over the corresponding period of last year, mainly due to the decrease 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,		
	2021	2020	**Changes**
	RMB'000	*RMB'000*	
Government grants	**3,000**	5,000	(40.0%)
Interests from deposits	**3,293**	2,480	32.8%
Others	**93**	350	(73.4%)
Total other net income	**6,386**	7,830	(18.4%)

2.6 *Operating Expense*

During the Reporting Period, operating expense of the Group amounted to RMB53.5 million, representing an increase of RMB3.2 million or 6.5% 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,				
	2021		2020		**Changes**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Staff cost	**31,965**	**59.7%**	32,012	63.7%	(0.1%)
Rental expense	**792**	**1.5%**	772	1.5%	2.6%
Service expense	**4,621**	**8.6%**	2,961	5.9%	56.1%
Depreciation and amortization	**7,795**	**14.6%**	6,352	12.6%	22.7%
Professional service expense	**4,131**	**7.7%**	2,692	5.4%	53.5%
Listing expense	**0**	**0.0%**	3,199	6.4%	(100.0%)
Others	**4,201**	**7.9%**	2,269	4.5%	85.1%
Total operating expense	**53,505**	**100.0%**	50,257	100.0%	6.5%

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 RMB21.4 million, representing a decrease of 15.6% as compared to the expected credit impairment losses of RMB25.3 million for the corresponding period of last year, which was because the Group optimized and iterated credit rating model, strengthened the process management of finance leasing assets, continuously enhanced the ability of risk identification and resolve, continued to improve the quality of finance leasing assets, and decreased the scale of impairment losses during the Reporting Period.

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

	For the six months ended June 30,		
	2021	2020	**Changes**
	RMB'000	*RMB'000*	
Loans and receivables	**21,419**	25,131	(14.8%)
Credit commitments [1]	**(31)**	196	(115.8%)
Impairment losses charged	**21,388**	25,327	(15.6%)

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 RMB32.4 million, representing an increase of RMB6.2 million or 23.5% 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 RMB96.9 million, representing an increase of RMB18.9 million or 24.3% as compared to the corresponding period of last year. While the total revenue of the Group rose by 8.5%, the interest expense and operating expense only added by 1.0% and 6.5% respectively as compared to the corresponding period of last year. Besides, the investment income of associates amounted to RMB5.8 million, representing an increase of RMB6.7 million as compared to the corresponding period of last year, mainly due to the smooth progress of the Group's "leasing-based equity investment" business and the investment business generated a rapid increase in investment income. 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 the steady improvement of asset quality. 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 and the operation efficiency will be improving on a constant basis, and the profitability will be enhanced considerably.

2.10 Basic Earnings per Share

During the Reporting Period, the Group's basic earnings per share for the first half of 2021 amounted to RMB0.07, 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 RMB8,236.0 million, representing a growth of RMB71.0 million or 0.9% as compared to the end of last year. Loans and receivables amounted to RMB7,535.4 million, representing a jump of RMB153.3 million or 2.1% as compared to the end of last year. In terms of the asset structure, cash and cash equivalents accounted for 5.3% of total assets, and loans and receivables accounted for 91.5% 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, 2021		As of December 31, 2020		**Changes**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Loans and receivables	**7,535,443**	**91.5%**	7,382,156	90.3%	2.1%
Pledged and restricted deposits	**50,187**	**0.6%**	137,830	1.7%	(63.6%)
Cash and cash equivalents	**432,553**	**5.3%**	413,273	5.1%	4.7%
Other assets	**51,183**	**0.6%**	71,380	0.9%	(28.3%)
Deferred tax assets	**57,524**	**0.7%**	53,224	0.7%	8.1%
Property and equipment	**8,031**	**0.1%**	13,037	0.2%	(38.4%)
Interest in associates	**78,133**	**0.9%**	72,328	0.9%	8.0%
Financial assets at fair value through other comprehensive income	**11,521**	**0.2%**	11,521	0.1%	0.0%
Financial assets at fair value through profit or loss	**1,000**	**0.0%**			100.0%
Intangible assets	**10,434**	**0.1%**	10,305	0.1%	1.3%
Total assets	**8,236,009**	**100.0%**	8,165,054	100.0%	0.9%

3.2 Loans and Receivables

The Group's loans and receivables include finance lease receivables from direct lease and receivables from sales-and-leaseback. During the Reporting Period, the Group attracted 85 new customers for finance leasing and entered into 164 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 RMB7,739.2 million, representing a soar of 2.3% 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, 2021 *RMB'000*	As of December 31, 2020 *RMB'000*	**Changes**
Gross amount of loans and receivables	**8,362,117**	8,197,267	2.0%
Less: Unearned finance income	**(622,901)**	(632,757)	(1.6%)
Net amount of loans and receivables	**7,739,216**	7,564,510	2.3%
Less: Allowances for impairment losses	**(203,773)**	(182,354)	11.7%
Carrying amount of loans and receivables	**7,535,443**	7,382,156	2.1%

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, 2021		As of December 31, 2020		**Changes**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Maturity					
Not later than 1 year	**4,249,451**	**54.9%**	4,112,931	54.4%	3.3%
1 to 2 years	**2,344,759**	**30.3%**	2,244,571	29.7%	4.5%
2 to 3 years	**977,716**	**12.6%**	922,495	12.2%	6.0%
Over 3 years	**167,290**	**2.2%**	284,513	3.7%	(41.2%)
Net amount of loans and receivables	**7,739,216**	**100.0%**	7,564,510	100.0%	2.3%

As at the end of the Reporting Period, 54.9% 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.

Loans and Receivables 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 2021, the international and domestic situation was complicated and the industry competition intensified. Based on core capabilities construction, the Group continued to improve the ability and efficiency of asset management, optimize asset structure and improve asset disposal capabilities through technological and mechanism empowerment. During the Reporting Period, the Group's asset security improved steadily, the allowance coverage ratio for NPAs steadily increased, and the asset quality continued to be optimized.

Strengthening professional capabilities and optimizing asset structure

During the Reporting Period, the Group practiced the professional development path of its business, further focused on the industry and the vertical layout of the upstream and downstream industrial chains, optimized the customer hierarchical management mechanism, and optimized the asset structure through active management of asset allocation.

Strengthening technological empowerment and mechanism optimization to improve asset management capabilities and efficiency

During the Reporting Period, the Group strengthened data governance and increased investment and construction of information infrastructure to consolidate the foundation of data assets. The Group promoted the deep integration of big data, rating models and business processes to further improve the effectiveness of risk identification, quantification and monitoring. The Group also carried out accurate post-lease management by using financial technology in order to enrich assets monitoring dimensions and deepening the application of big data and Internet of Things technology and improved assets management efficiency by optimizing the front, middle and back assets operation system to reasonably match management resources.

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

During the Reporting Period, the Group continued to consolidate the judicial resource guarantee system, continuously optimized the working mechanism and the division of labor, actively expanded new ideas for asset disposal, explored and broadened non-performing asset disposal channels, and improved overdue handling capabilities. During the Reporting Period, the Company's ability to dispose of non-performing assets has significantly improved.

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

	As of June 30, 2021		As of December 31, 2020		**Changes**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Normal	**7,215,018**	**93.2%**	7,020,279	92.8%	2.8%
Special mention	**405,349**	**5.2%**	432,506	5.7%	(6.3%)
Sub-standard	**53,641**	**0.7%**	52,209	0.7%	2.7%
Doubtful	**6,423**	**0.1%**	59,516	0.8%	(89.2%)
Loss	**58,785**	**0.8%**	–	–	N/A
Net amount of loans and receivables	**7,739,216**	**100.0%**	7,564,510	100.0%	2.3%
Non-performing assets	**118,849**		111,725		
NPA ratio	**1.5%**		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 technology and new economy industries. By practicing accurate identification, strict control and efficient resolution of various risks, the Group's non-performing asset rate remained stable and the overall asset quality continued to be optimized. Among them, the assets under normal accounted for 93.2%, which was higher than that at the beginning of the year. At the same time, based on the principle of prudent operation and risk control, the Group classified some high-risk projects into loss category and fully withdrawn risk reserves.

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 RMB21.4 million from RMB182.4 million as at the end of last year to RMB203.8 million as at the end of the Reporting Period.

	As of June 30, 2021		As of December 31, 2020	
	RMB'000	***% of total***	*RMB'000*	*% of total*
Allowances for Non-performing assets	**78,758**	**38.6%**	70,576	38.7%
Allowances for Normal and special assets	**125,015**	**61.4%**	111,778	61.3%
Total allowance for loans and receivables	**203,773**	**100.0%**	182,354	100.0%
Non-performing assets	**118,849**		111,725	
Ratio of allowances for impairment losses to loans and receivables	**171.5%**		163.2%	

As at the end of the Reporting Period, ratio of allowances for impairment losses to loans and receivables of the Group was 171.5%, which was 8.3% 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. Therefore, the Group makes full provision to improve its risk response ability.

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 loans and receivables of the Group in stage one, stage two and stage three was 0.6%, 4.1% and 34.6% respectively, representing an increase of 0.1%, a decrease of 0.2% and an increase of 2.5% respectively as compared to the end of last year, which was mainly because out of prudential considerations, the parameters for measurement of ECL were appropriately adjusted, the allowances to gross loans and receivables was increased, and systematically strengthened the risk resistance capacity of its assets.

	Stage 1 12-month ECL balance *RMB'000*	Stage 2 Lifetime ECL not credit-impaired *RMB'000*	Stage 3 Lifetime ECL credit-impaired *RMB'000*	Total *RMB'000*
June 30, 2021				
ECL rate%	**0.6%**	**4.1%**	**34.6%**	**2.6%**
Net amount of loans and receivables	**7,262,518**	**11,497**	**465,201**	**7,739,216**
Allowance for impairment loss	**(42,309)**	**(477)**	**(160,987)**	**(203,773)**
Carrying amount of loans and receivables	**7,220,209**	**11,020**	**304,214**	**7,535,443**
December 31, 2020				
ECL rate%	0.5%	4.3%	32.1%	2.4%
Net amount of loans and receivables	7,067,972	46,180	450,358	7,564,510
Allowance for impairment loss	(35,826)	(1,989)	(144,539)	(182,354)
Carrying amount of loans and receivables	7,032,146	44,191	305,819	7,382,156

3.3 Others

As at the end of the Reporting Period, cash and cash equivalents of the Group amounted to RMB432.6 million. The Group retained adequate cash to support business expansion and ensures its liquidity and safety. Restricted deposit of the Group amounted to RMB50.2 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 RMB51.2 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 RMB57.5 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 RMB8.0 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 RMB78.1 million, which was the equity investment in the joint ventures, Beijing Zhongnuo and Jiangsu Zhongnuo.

At the end of the Reporting Period, the balance of financial assets at fair value through other comprehensive income of the Group amounted to RMB11.5 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 RMB10.4 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 RMB6,281.3 million, representing an increase of RMB32.1 million or 0.5% as compared to the end of last year. In particular, borrowings were the main component of the liabilities of the Group, accounting for 70.5%, representing an increase from 66.5% 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, 2021		As of December 31, 2020		**Changes**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Borrowings	**4,430,333**	**70.5%**	4,153,046	66.5%	6.7%
Trade and other liabilities	**1,833,202**	**29.2%**	2,069,874	33.1%	(11.4%)
Income tax payable	**17,795**	**0.3%**	26,319	0.4%	(32.4%)
Total liabilities	**6,281,330**	**100.0%**	6,249,239	100.0%	0.5%

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 58.2%, 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 RMB4,430.3 million, representing an increase of RMB277.3 million or 6.7% as compared to the end of last year, primarily due to the increasing of the Group's finance lease business 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, 2021		As of December 31, 2020		**Changes**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Bank loans	**2,579,693**	**58.2%**	2,335,002	56.2%	10.5%
– pledged	**1,599,630**	**36.1%**	1,394,087	33.5%	14.7%
– unsecured	**980,063**	**22.1%**	940,915	22.7%	4.2%
Borrowings from related parties [(1)]					
– pledged	**1,160,000**	**26.2%**	800,000	19.3%	45.0%
Asset-backed securities	**690,640**	**15.6%**	1,018,044	24.5%	(32.2%)
Total borrowings	**4,430,333**	**100.0%**	4,153,046	100.0%	6.7%

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 RMB2,579.7 million, accounting for 58.2% 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 26.2% of the total borrowings, which was an increase from the end of last year; and the balance of asset-backed securities accounted for 15.6% of the total borrowings, which was a decrease from the end of last year, mainly because there was no newly issued asset-backed securities during the Reporting Period. To further expand our funding sources, the Group plans to actively explore debt financing products such as asset-backed notes and short-term commercial paper.

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

	As of June 30, 2021		As of December 31, 2020		**Changes**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Current	**2,822,005**	**63.7%**	3,068,052	73.9%	(8.0%)
Non-current	**1,608,328**	**36.3%**	1,084,994	26.1%	48.2%
Total borrowings	**4,430,333**	**100.0%**	4,153,046	100.0%	6.7%

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 63.7% of total borrowings of the Group, representing a decrease of 8.0% 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 decreased by 11.4% from RMB2,069.9 million as at the end of last year to RMB1,833.2 million as at the end of the Reporting Period. This decrease was primarily due to acceptance of notes payable.

3.7 Capital and Reserves

As at the end of the Reporting Period, total equity of the Group amounted to RMB1,954.7 million, representing an increase of RMB38.9 million or 2.0% 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, 2021		December 31, 2020		**Changes**
	RMB'000	***% of total***	*RMB'000*	*% of total*	
Share capital	**1,333,334**	**68.2%**	1,333,334	69.6%	0.0%
Reserves	**621,345**	**31.8%**	582,481	30.4%	6.7%
Total equity	**1,954,679**	**100.0%**	1,915,815	100.0%	2.0%

4. CAPITAL EXPENDITURES

During the Reporting Period, the capital expenditure of the Group was RMB1.02 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 Industry Customer Access. It is our consistent strategy to keep the industry and customers in check from the customer access link, which is also the first step of credit risk control. Our five business departments conduct follow-up research on their respective technology and new economy 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 order to further improve the risk control ability of the industry, we have implemented the industrial opening system since this year, identified 13 industries in the first batch through the opening system, guided and supported all business departments to carry out in-depth industrial research, channel construction and business expansion around the opening industry, and obtained high-quality customer base on deep cultivation of the industry.

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 "subject growth+ debt security". Based on the business characteristics of "technology + leasing", we put forward the innovative three-dimensional evaluation system of "asset credit + subject credit+ debt security". According to the features of different products, the asset credit rating model evaluates from the aspects of income generation, value preservation, controllability and liquidity, strengthens the management of asset risk, and mainly evaluates the guarantee level of the lease to the financial claim; according to the characteristics of innovative enterprises in different development stages, the main credit rating model sets up three sub models: revenue-market value model, revenue-growth model and revenue-profit model. The system evaluates the management ability, industry environment, product quality, market position, business model, operation quality and other dimensions respectively, and lists the major potential risks of innovative enterprises individually; using investment banks' way of thinking, it taps deep into customer value and growth potential. The debt safety rating model, returning to the nature of leasing, focuses on evaluating the security degree of debt by analyzing asset credit, subject credit, credit enhancement measures evaluation results. The optimized rating system reshapes the current internal rating system, continuously improves the model's scientific and refined risk description ability, and provides technical support for project decision-making. We have further strengthened the application of rating results in multiple scenarios such as credit management, project pricing, project approval, post-lease management, customer classification and process optimization.

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 review 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 big data, eco-solution, 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 loans and 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 LPR and the benchmark interest rate of the PBOC.

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 RMB3,914.2 million pledged to secure borrowings, and cash of RMB50.2 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, 2021, the Group had a total of 124 employees (As of December 31, 2020: 120), with approximately 99.2% of our staff holding bachelor's degrees or above, and approximately 62.9% holding master's degrees or above (45 employees obtained bachelor's degrees, 75 employees obtained master's degrees and 3 employees obtained doctor's degrees). Approximately 17.7% (22 employees) have intermediate professional titles or above; and approximately 6.5% (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 33.1% of our employees (41 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 RMB32.0 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, 2021	As of December 31, 2020
	RMB'000	*RMB'000*
Credit commitments[(1)]	**15,000**	38,117
Capital commitments[(2)]	**27,620**	27,620

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 and Jiangsu Zhongnuo of RMB3.1 million and RMB24.5 million, respectively.

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 dated December 31, 2019 (the "**Prospectus**"):

- 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 skill sets; 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	9.7	30.9	To be gradually used until 2023
Recruitment of talents	40.6	39.7	0.9	To be gradually used until 2021
Replenishment of working capital	40.6	40.6	–	N/A

11. BUSINESS OUTLOOK

With the target of becoming the top-tier financial service provider for science and technology SMEs, the Group will continuously focus on strategic emerging industries, seize the rapid growth opportunities to expand and increase our customer base. We will also strengthen our leasing-based equity investment business, develop a leasing-based asset management business to enhance our integrated capability. By further improving our digitalization level, we will be more efficient and profitable so as to create greater value for shareholders and contribute to China's science and technology development.

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 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》) 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, 2021 (2020 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, 2021 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, 2021.

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

As of the date of this announcement, 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 Stock Exchange (www.hkexnews.hk) and on the website of the Company (www.zgclease.com). 2021 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 20, 2021

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.