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ZIYUANYUAN

ZIYUANYUAN HOLDINGS GROUP LIMITED
紫元元控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 8223

Third
Quarterly
Report

2018

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

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

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

CONTENTS

Page	
2	CONTENTS
3	UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
4	UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
5	NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
15	MANAGEMENT DISCUSSION AND ANALYSIS
18	OTHER INFORMATION

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

For the three months and nine months ended 30 September 2018

The board of Directors (the "Board") hereby announces the unaudited condensed consolidated financial results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 30 September 2018, together with the comparative unaudited figures for the corresponding period in 2017, as follows:

	Notes	**Three months ended 30 September**		**Nine months ended 30 September**	
		2018	2017	**2018**	2017
		RMB'000	RMB'000	**RMB'000**	RMB'000
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue					
Finance lease income	3	**14,207**	13,473	**43,344**	38,088
Bank interest income		**98**	3	**111**	11
Exchange gain/(loss), net		**614**	(20)	**614**	(24)
Staff costs		**(2,345)**	(1,869)	**(5,870)**	(4,898)
Impairment losses on finance lease receivable		**(211)**	(3,084)	**(1,876)**	(4,001)
Listing expenses		**(1,306)**	(2,321)	**(4,883)**	(7,567)
Other operating expenses		**(2,293)**	(1,655)	**(7,177)**	(4,039)
Finance costs	4	**(2,492)**	(2,410)	**(8,670)**	(6,282)
Profit before taxation		**6,272**	2,117	**15,593**	11,288
Taxation	5	**(2,153)**	(1,162)	**(5,444)**	(4,858)
Profit and total comprehensive income for the period attributable to owners of the Company	6	**4,119**	955	**10,149**	6,430
Earnings per share					
– Basic (RMB cents)	8	**1.05**	0.32	**3.07**	2.16

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2018

	Share capital RMB'000	Share premium RMB'000	Capital and other reserves RMB'000	Statutory reserves RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2018 (audited)	**88**	**61,913**	**133,023**	**2,814**	**12,513**	**210,351**
Adjustments of application of accounting policy changes (note 2)	**–**	**–**	**–**	**–**	**(171)**	**(171)**
At 1 January 2018 (restated)	**88**	**61,913**	**133,023**	**2,814**	**12,342**	**210,180**
Profit and total comprehensive income for the period	**–**	**–**	**–**	**–**	**10,149**	**10,149**
Issue of new shares (note i)	**8,459**	**55,829**	**–**	**–**	**–**	**64,288**
Issue of shares by capitalisation of share premium account (note ii)	**25,292**	**(25,292)**	**–**	**–**	**–**	**–**
Transaction cost attributable to the issue of new shares	**–**	**(8,015)**	**–**	**–**	**–**	**(8,015)**
At 30 September 2018 (unaudited)	**33,839**	**84,435**	**133,023**	**2,814**	**22,491**	**276,602**
At 1 January 2017 (audited)	87	36,388	65,023	778	4,984	107,260
Profit and total comprehensive income for the period	–	–	–	–	6,430	6,430
Issue of shares (note iii)	1	25,525	–	–	–	25,526
Deemed contribution from a shareholder (note iv)	–	–	68,000	–	–	68,000
At 30 September 2017 (unaudited)	88	61,913	133,023	778	11,414	207,216

Notes:

(i) The Company's shares were listed on the GEM of the Stock Exchange on 9 July 2018 and 100,000,000 ordinary shares were issued at HK$0.76 per share on 9 July 2018 in connection with the listing of the Company on GEM.

(ii) Pursuant to the written resolutions passed by the shareholders of the Company on 12 June 2018, upon completion of the share offer on 9 July 2018, the Company was authorised to capitalise a sum of HK$29,899,000 standing to the credit of the share premium account of the Company and applied such amount to pay up in full at par of 298,990,000 ordinary shares of the Company.

(iii) On 31 May 2017, the Company issued and allotted 10,000 new ordinary shares with a par value of HK$0.1 each to Hero Global Limited (the "Hero Global"), an immediate holding company of the Company, and the consideration of which was satisfied by capitalisation of an amount due by the Group to Hero Global of RMB25,526,000. The new shares rank pari passu with the existing shares in all respects.

(iv) At 28 March 2017, Hero Global waived an amount due from HK Lixin Trade Co., Limited (the "HK Lixin"), a subsidiary of the Company, amounting to RMB68,000,000, with this being accounted for as a deemed capital contribution from a shareholder.

1. BASIS OF PREPARATION

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

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

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND JUDGEMENT

Principal accounting policies

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

Other than changes in accounting policies resulting from the application of new and amendments to HKFRSs, the accounting policies and method of computation used in the condensed consolidated financial statements for the nine months ended 30 September 2018 are the same as those followed in the preparation of the Group's historical financial information for each of the three years ended 31 December 2017 included in the Accountants' Report in Appendix I of the prospectus of the Company dated 25 June 2018.

Application of new and amendments to HKFRSs

In the current period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND JUDGEMENT *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments

In the current period, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and finance lease receivable and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets and financial liabilities

All financial assets and financial liabilities will continue to be measured on the same basis as are currently measured under HKAS 39 except for the impact of ECL.

The directors of the Company reviewed and assessed the Group's financial assets and financial liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and financial liabilities and the impacts thereof are detailed in Note 2.1.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including other receivables and bank balances and cash) and finance lease receivable. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND JUDGEMENT *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments *(Continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under ECL model (Continued)

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group applies the simplified approach to recognise lifetime ECL for finance lease receivable that results from transactions that are within the scope of HKAS 17.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND JUDGEMENT *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments *(Continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under ECL model (Continued)

Significant increase in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND JUDGEMENT *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments *(Continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under ECL model (Continued)

Significant increase in credit risk (Continued)

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default ("PD"), loss given default ("LGD") (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the PD and LGD is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a finance lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the finance lease receivable in accordance with HKAS 17 Leases.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets and finance lease receivable for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Note 2.1.2.

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND JUDGEMENT *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments *(Continued)*

2.1.2 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9, HKAS 17 and HKAS 39 at the date of initial application, 1 January 2018.

	Closing balance At 31 December 2017 under HKAS 17/39	**Remeasurement of loss allowance under ECL model under HKFRS 9**	**Opening balance At 1 January 2018 under HKFRS 9/ HKAS 17**
	RMB'000	RMB'000	RMB'000
Finance lease receivable	336,965	(228)	336,737
Deferred tax assets	4,349	57	4,406

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all finance lease receivable. To measure the ECL, finance lease receivable have been grouped based on shared credit risk characteristics. The finance lease receivable has substantially the same risk characteristics as the finance lease receivable for the same types of contracts.

2. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND JUDGEMENT *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments *(Continued)*

2.1.2 Summary of effects arising from initial application of HKFRS 9 (Continued)

Impairment under ECL model (Continued)

As at 1 January 2018, the additional credit loss allowance of RMB228,000 and decrease in deferred taxation of RMB57,000 has been recognised against retained profits. The additional loss allowance is charged against the finance lease receivable.

Loss allowances for other financial assets at amortised cost mainly comprise bank balances and other receivables, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition. As at 1 January 2018, the directors of the Company reviewed and assessed the impairment of bank balances and other receivables under ECL model, and no additional loss allowance is recognised against retained profits.

All loss allowances for financial assets including finance lease receivable as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

	(i) HKAS 39 carrying amount 31/12/2017	(ii) Remeasurements through opening retained earnings	(iii) = (i) + (ii) HKFRS 9 carrying amount 01/01/2018
	RMB'000	RMB'000	RMB'000
Financial assets			
Finance lease receivable (HKAS 17)	8,531	228	8,759

Except as described above, the application of other amendments to HKFRSs in the current period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE

Revenue represents income received and receivable from the provision of finance leasing services in the PRC.

4. FINANCE COSTS

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Imputed interests on interest-free deposits from finance lease customers	**2,224**	1,894	**6,960**	5,190
Interests on bank borrowing repayable within one year	**265**	349	**1,362**	906
Interests on financial liability arising from repurchase agreements	**3**	167	**348**	186
	2,492	2,410	**8,670**	6,282

5. TAXATION

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
The charge (credit) comprises:				
Current tax				
– Enterprise Income Tax ("EIT") in the PRC	**1,851**	1,763	**5,191**	5,217
Deferred tax (Note 12)	**302**	(601)	**253**	(359)
	2,153	1,162	**5,444**	4,858

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group's operation in Hong Kong had no assessable income during both periods.

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

6. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Directors' remuneration	**296**	127	**514**	203
Other staff costs				
– Salaries, allowances and other staff benefits	**1,822**	1,583	**4,768**	4,226
– Staffs' retirement benefit scheme contributions	**227**	159	**588**	469
Total staff costs	**2,345**	1,869	**5,870**	4,898
Depreciation of furniture and office equipment	**51**	50	**152**	144
Minimum lease payments under operating leases in respect of properties	**311**	282	**804**	643

7. DIVIDENDS

The board of Directors of the Company does not recommend the payment of an interim dividend in respect of the nine months ended 30 September 2018 (nine months ended 30 September 2017: Nil).

8. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to the owners of the Company is based on the following data assuming capitalisation issue as explained in the subsection headed "Statutory and General Information – A. Further Information about Our Company and Our Subsidiaries – 3. Resolution in writing of our shareholders passed on 12 June 2018" in Appendix IV to the prospectus of the Company dated 25 June 2018 had been effective since 1 January 2017:

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Earnings:				
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	**4,119**	955	**10,149**	6,430

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	**2018**	2017
	'000	'000	**'000**	'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Number of shares:				
Weighted average number of ordinary shares for the purpose of basic earnings per share	**391,304**	300,000	**330,769**	298,367

No diluted earnings per share are presented as there were no potential dilutive ordinary shares in issue during the three months and nine months ended 30 September 2018 and 2017.

The Board of Directors of the Company announces the unaudited condensed consolidated quarterly results of the Group for the nine months ended 30 September 2018 together with the corresponding comparative figures. This information should be read in conjunction with the prospectus of the Company dated 25 June 2018 (the "**Prospectus**").

BUSINESS REVIEW

The shares of the Company (the "**Shares**") were successfully listed on the GEM of the Stock Exchange on 9 July 2018 (the "**Listing**").

The Group is principally engaged in providing equipment-based finance leasing services to small and medium-sized enterprises ("**SME**") customers in the printing and logistics industries in the People's Republic of China (the "**PRC**"). During the nine months ended 30 September 2018, the Group was focused on providing finance leasing services to the printing and logistics industries in various provinces, municipalities, and autonomous regions in the PRC, where the Group has established connections with industry players and gained operational expertise. The finance lease offering by the Group comprises direct finance leasing and sale-leaseback.

The diversified customer base of the Group consisting of SME customers in the target industries of printing and logistics in the PRC has also been growing. As confirmed by the Directors, the Group provided services to approximately 299 SME customers in these two industries across 26 provinces, municipalities and autonomous regions in the PRC as at 30 September 2018.

FUTURE PROSPECTS

The Group plans to continue to strengthen its key market player position in the finance leasing industry in the PRC and enhance its overall competitiveness and market share. The Group intends to achieve its objectives by adopting the following key business strategies: (i) further strengthen the Group's market position and expand the Group's business in its target industries in the PRC; (ii) further strengthen the Group's risk management capabilities and enhance OA System; and (iii) explore new target industries for strategic development in the PRC, in particular, the PRC medical device industry. The Group will draw on its experience of successful operation in the printing and logistics industries and combine it with the characteristics of the customers in the medical industry so as to develop a matching business model and risk management system for the industry. The Group is conducting market researches and employee trainings in relation to the medical device industry and will conduct necessary trial operations and adjustments to the established model and risk management system, so as to prepare the entry into the industry when suitable market opportunities arise. As at the date of this report, the Group has formally started the operation of medical device industry in Guangdong province and the Group expects the business will further expand to different provinces, municipalities and autonomous regions in the PRC in the fourth quarter and the coming year.

FINANCIAL REVIEW

Revenue

The Group's revenue was principally derived from finance leasing income for the provision of finance leasing services to its customers in printing and logistics industries in the PRC. During the nine months ended 30 September 2018, the Group's revenue increased by approximately RMB5.2 million or approximately 13.7% to approximately RMB43.3 million (nine months ended 30 September 2017: approximately RMB38.1 million). Revenue from the printing industry continues to be the largest revenue contributor of the Group. The increase in revenue derived from the printing industry during the nine months ended 30 September 2018 was mainly attributable to the increasing demand for printing equipment in the PRC and the Group's efforts in securing new customers in this industry.

Staff cost

Staff costs include primarily Directors' remuneration, employee salaries, allowances and other staff benefits as well as employee retirement benefits scheme contributions. Staff costs increased from RMB4.9 million for the nine months ended 30 September 2017 to approximately RMB5.9 million for the nine months ended 30 September 2018. Such increase was mainly attributable to the increase in head count and staff salaries for existing staff.

Impairment losses on finance lease receivable

The Group is not required to provide general provisions as commercial banks and other financial institutions which the China Banking Regulatory Commission regulates. The provisioning policies are based on the applicable accounting standards. The Group first assess whether impairment exists individually for financial lease receivables which had a history of past due. When the Group finds no objective evidence of impairment exists for an individually assessed financial lease receivable, the Group includes the financial lease receivables with similar credit risk characteristics and collectively assess them for impairment.

During the nine months ended 30 September 2017, an impairment loss of approximately RMB4.0 million was recognised to reflect (i) an increase in impairment allowance as a result of an increase of finance lease receivable; and (ii) an increase in individual impairment allowance as a result of non-performing asset during the period in accordance with the Hong Kong Accounting Standard 39. During the nine months ended 30 September 2018, an impairment loss of approximately RMB1.9 million was recognised primarily due to an increase in impairment allowance as a result of an increase in finance lease receivable due to the business growth and the application of expected loss model under HKFRS 9.

Listing expenses

Listing expenses comprised professional and other expenses in relation to the Listing. The listing expenses amounted to approximately RMB4.9 million for the nine months ended 30 September 2018 (nine months ended 30 September 2017: approximately RMB7.6 million).

Other operating expenses

Other operating expenses include primarily sales and marketing expenses, rental expenses and other expenses. Other operating expenses increased from approximately RMB4.0 million for the nine months ended 30 September 2017 to approximately RMB7.2 million for the nine months ended 30 September 2018. The increase was mainly due to the Group increased sales and marketing expenses in connection with the Listing and the expansion of the Group's customer base and strengthening of the foothold in the finance leasing industry in the PRC for the nine months ended 30 September 2018.

Finance costs

Finance costs consist of (i) interest incurred on financial liability arising from repurchase agreements; (ii) imputed interest expense on interest-free deposits from finance lease customers and (iii) interest on bank borrowing. Finance costs increased from approximately RMB6.3 million for the nine months ended 30 September 2017 to approximately RMB8.7 million for the nine months ended 30 September 2018. The increase was mainly due to that (i) imputed interest expense on interest-free deposits from finance lease customers increased from approximately RMB5.2 million for the nine months ended 30 September 2017 to approximately RMB7.0 million for the nine months ended 30 September 2018; and (ii) interest on bank borrowing increased from approximately RMB0.9 million for the nine months ended 30 September 2017 to approximately RMB1.4 million for the nine months ended 30 September 2018.

Taxation

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

Profit and total comprehensive income attributable to owners of the Company

For the nine months ended 30 September 2018 and 2017, the Group's profit and total comprehensive income attributable to owners of the Company was approximately RMB10.1 million and RMB6.4 million, respectively. The increase of profit and total comprehensive income attributable to owners of the Company for the nine months ended 30 September 2018 was mainly attributable to an increase in revenue and decreases in impairment losses on finance lease receivable and listing expenses as compared to the corresponding period in 2017.

Dividend

The Board of Directors of the Company does not recommend the payment of an interim dividend in respect of the nine months ended 30 September 2018 (nine months ended 30 September 2017: Nil).

CAPITAL STRUCTURE

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

As at 30 September 2018, the Company's issued share capital was 40,000,000 and the number of its issued ordinary Shares was 400,000,000 of HK$0.1 each.

DISCLOSURE OF INTEREST

Directors' and chief executive's interests and short positions in Shares and underlying Shares and debentures of the Company and its associated corporations

As at 30 September 2018, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long positions in the Shares

Name of Director	Capacity/Nature of interest	Number of Shares held/ interested in	Approximate percentage of shareholding [(1)]
Mr. Zhang Junshen [(1) (2)]	Interest in controlled corporation; interest held jointly with another person	300,000,000	75%
Mr. Zhang Junwei [(1) (3)]	Interest in controlled corporation; interest held jointly with another person	300,000,000	75%

Notes:

(1) On 24 February 2017, the ultimate controlling shareholders of the Company, namely Mr. Zhang Junshen and Mr. Zhang Junwei entered into a concert parties confirmatory deed to acknowledge and confirm, among other things, that they are parties acting in concert with each member of the Group from the incorporation dates of the respective members of the Group and continue as at and after the date of the concert parties confirmatory deed, details of which are set out in the subsection headed "History and Reorganisation – Parties Acting in Concert" in the Prospectus. As such, pursuant to the parties acting in concert arrangement, each of the controlling shareholders of the Company, namely Hero Global (being wholly owned by Mr. Zhang Junshen), Mr. Zhang Junshen, Icon Global Holding Limited ("**Icon Global**") (being wholly owned by Mr. Zhang Junwei) and Mr. Zhang Junwei, is deemed to be interested in 75.0% of the issued share capital of the Company.

(2) 300,000,000 Shares in which Mr. Zhang Junshen is interested consist of the following: (i) 219,801,980 Shares held by Hero Global, a company wholly owned by Mr. Zhang Junshen, in which Mr. Zhang Junshen is deemed to be interested under the SFO; and (ii) 80,198,020 Shares in which Mr. Zhang Junshen is deemed to be interested as a result of being a party acting-in-concert with Mr. Zhang Junwei.

(3) 300,000,000 Shares in which Mr. Zhang Junwei is interested consist of (i) 80,198,020 Shares held by Icon Global, a company wholly owned by Mr. Zhang Junwei, in which Mr. Zhang Junwei is deemed to be interested under the SFO; and (ii) 219,801,980 Shares in which Mr. Zhang Junwei is deemed to be interested as a result of being a party acting-in-concert with Mr. Zhang Junshen.

Long position in the associated corporations

Name of Director	Name of associated corporations	Capacity/ nature of interest	Number and class of securities	Percentage of Shareholding
Mr. Zhang Junshen	Hero Global	Beneficial owner	50,000 ordinary shares	100%
Mr. Zhang Junwei	Icon Global	Beneficial owner	100 ordinary shares	100%

Save as disclosed above, as at 30 September 2018, none of the Directors or chief executive of the Company had an interest or short position in any shares or underlying shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they are taken or deemed to have under such provisions of the SFO) or that was required to be recorded in the register kept by the Company pursuant to section 352 of the SFO, or which are required to be notified to the Company and the Stock Exchange, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

Substantial shareholders' interests and short positions in Shares and underlying Shares of the Company

So far as the Directors are aware, as at 30 September 2018, the persons (other than Directors or chief executive of the Company) who had interests in the Shares and underlying Shares of the Company within the meaning of Part XV of the SFO which are required to be disclosed pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which will be required, pursuant to Section 336 of the SFO, to be entered in the register of the Company were as follows:

Long positions in the Shares

Name of shareholder	Capacity/Nature of interest	Number of Shares held/ interested in	Approximate percentage of shareholding
Hero Global [(1)]	Beneficial owner; interests held jointly with another person	300,000,000	75%
Icon Global [(1)]	Beneficial owner; interests held jointly with another person	300,000,000	75%
Ms. Tang Yiping [(2)]	Interest of spouse	300,000,000	75%

Notes:

(1) On 24 February 2017, the ultimate controlling shareholders of the Company, namely Mr. Zhang Junshen and Mr. Zhang Junwei entered into a concert parties confirmatory deed to acknowledge and confirm, among other things, that they are parties acting in concert with each member of the Group from the incorporation dates of the respective members of the Group and continue as at and after the date of the concert parties confirmatory deed, details of which are set out in the subsection headed "History and Reorganisation – Parties Acting in Concert" in the Prospectus. As such, pursuant to the parties acting in concert arrangement, each of the controlling shareholders of the Company, namely Hero Global (being wholly owned by Mr. Zhang Junshen), Mr. Zhang Junshen, Icon Global (being wholly owned by Mr. Zhang Junwei) and Mr. Zhang Junwei, is deemed to be interested in 75.0% of the issued share capital of the Company.

(2) Ms. Tang Yiping is the spouse of Mr. Zhang Junshen, and she is deemed, or taken to be, interested in all Shares in which Mr. Zhang Junshen is interested in for the purposes of the SFO.

Save as disclosed above, as at 30 September 2018, the Directors were not aware of any other person (other than the Directors or chief executive of the Company as disclosed in the section headed "Directors' and chief executive's interests and short positions in Shares and underlying Shares and debentures of the Company and its associated corporations" above) who had or deemed to have interests or short positions in the shares, underlying shares or debentures of the Company which has to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under section 336 of the SFO.

COMPETING INTEREST

During the nine months ended 30 September 2018, none of the Directors or the controlling shareholders of the Company or their respective close associates (as defined in the GEM Listing Rules) is interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group or has any conflicts of interest with the Group.

DEED OF NON-COMPETITION

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

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities since the Listing Date and up to the date of this report.

CORPORATE GOVERNANCE PRACTICES

The Company considers the maintenance of a high standard of corporate governance important to the continuous growth of the Group. The Company's corporate governance practices are based on code provisions as set out in the Corporate Governance Code (the "**CG Code**") as contained in Appendix 15 of the GEM Listing Rules. As the Shares were listed on the GEM of the Stock Exchange on 9 July 2018, other than the deviation from code provision A.2.1, the Company has since then adopted and complied with, where applicable, the CG Code to ensure that the Group's business activities and decision-making processes are regulated in a proper and prudent manner.

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

CODE PROVISION A.2.1

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

EVENT AFTER THE REPORTING PERIOD

The Directors are not aware of any significant event which had material effect on the Group subsequent to 30 September 2018 and up to the date of this report.

INTEREST OF THE COMPLIANCE ADVISER

As notified by Guoyuan Capital (Hong Kong) Limited ("**Guoyuan Capital**"), the Company's compliance adviser, save for the compliance adviser service agreement entered into between the Company and Guoyuan Capital dated 28 March 2017, none of Guoyuan Capital or its directors, employees or associates (as defined in the GEM Listing Rules) had any interest in the Group as at 30 September 2018, which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

AUDIT COMMITTEE AND REVIEW OF QUARTERLY RESULTS

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

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

The financial information in this report has not been audited. The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the nine months ended 30 September 2018 and is of the opinion that the preparation of such statements complied with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable legal requirements, and that adequate disclosures had been made.

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

Hong Kong, 8 November 2018

As at the date of this report, the executive Directors are Mr. Zhang Junshen (Chairman and Chief Executive Officer), Mr. Liu Zhiyong, the non-executive Directors are Mr. Zhang Junwei and Ms. Shen Qingli and the independent non-executive Directors are Mr. Chan Chi Fung Leo, Mr. Li Zhensheng and Mr. Chow Siu Hang.