



SHLD
升華蘭德

SHENGHUA LANDE SCITECH LIMITED*

浙江升華蘭德科技股份有限公司

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

Stock Code: 8106

2017
Third Quarterly Report

* For identification purposes only

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

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*This report, for which the directors (the “**Director(s)**”) of Shenghua Lande Scitech Limited* (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) 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: (i) the information contained in this report is accurate and complete in all material respects and not misleading or deceptive; and (ii) there are no other matters the omission of which would make any statement herein or this report misleading.*

HIGHLIGHTS

- Achieved a turnover of approximately RMB128,354,000 for the nine months ended 30 September 2017, representing an approximately 65.59% increase as compared with the turnover for the corresponding period in 2016.
- Incurred a net loss of approximately RMB6,041,000 for the nine months ended 30 September 2017, compared to the net loss of approximately RMB3,755,000 for the corresponding period in 2016.
- The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2017.

The board (the “**Board**”) of Directors of the Company is pleased to present the third quarterly report of the Company and its subsidiaries (the “**Group**”) for the nine and three months ended 30 September 2017.

2017 THIRD QUARTERLY RESULTS

For the nine months ended 30 September 2017, the Group recorded an unaudited turnover of approximately RMB128,354,000 (2016: RMB77,514,000), representing an increase of approximately RMB50,840,000, or approximately 65.59%, as compared with the turnover of the same period in 2016. For the three months ended 30 September 2017, the Group recorded an unaudited turnover of approximately RMB48,996,000 (2016: RMB49,485,000), representing a decrease of approximately RMB489,000 or approximately 0.99%, as compared with the turnover of the same period in 2016.

For the nine and three months ended 30 September 2017, the Group recorded an unaudited net loss attributable to owners of the Company of approximately RMB6,041,000 (2016: RMB3,755,000) and RMB1,646,000 (2016: RMB634,000), respectively.

The unaudited results of the Group for the nine and three months ended 30 September 2017, together with the unaudited comparative figures for the corresponding periods in 2016, are as follows:

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Turnover	2	128,354	77,514	48,996	49,485
Cost of sales		(118,809)	(66,717)	(45,682)	(45,616)
Gross profit		9,545	10,797	3,314	3,869
Other operating income		87	416	87	35
Distribution and selling expenses		(5,724)	(7,737)	(1,795)	(2,220)
General and administrative expenses		(8,926)	(9,016)	(2,754)	(2,827)
Other operating expenses		(29)	(77)	(28)	(70)
Finance costs, net		(1,309)	1,320	(497)	469
Loss before tax		(6,356)	(4,297)	(1,673)	(744)
Income tax	3	-	-	-	-
Loss for the period		(6,356)	(4,297)	(1,673)	(744)
Loss for the period attributable to:					
Owners of the Company		(6,041)	(3,755)	(1,646)	(634)
Non-controlling interests		(315)	(542)	(27)	(110)
		(6,356)	(4,297)	(1,673)	(744)
Loss per share					
– Basic and diluted (RMB)	4	(1.19) cents	(0.74) cents	(0.32) cents	(0.13) cents

NOTES:

1. BASIS OF PRESENTATION

The Company was incorporated as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 20 September 2001 and its H shares were listed on GEM on 3 May 2002, details of which are set out in the prospectus of the Company dated 24 April 2002.

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards published by the International Accounting Standards Board and the disclosure requirements of Chapter 18 of the GEM Listing Rules.

2. TURNOVER

	Nine months ended		Three months ended	
	30 September		30 September	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Provision of telecommunication solutions	-	-	-	-
Trading of hardware and computer software	119,746	66,301	46,040	45,220
Provision of telecommunication value-added service	8,608	11,213	2,956	4,265
	128,354	77,514	48,996	49,485

3. INCOME TAX

	Nine months ended		Three months ended	
	30 September		30 September	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
PRC Enterprise Income Tax ("EIT")	-	-	-	-

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC enterprises for the period was 25% (2016: 25%).

No provision for EIT has been made for the Company for the period (2016: Nil) as there was no assessable profit derived by the Company for the period (2016: Nil). During the period from 1 January 2017 to 29 September 2017, one of the subsidiaries of the Company was subject to EIT at a rate of 15% (for the nine months ended 30 September 2016: 15%) as it was classified as a High and New Technology Enterprise. Commencing from 30 September 2017, the said subsidiary had no longer been classified as a High and New Technology Enterprise and was subject to the EIT tax rate of 25%.

During the period, no provision for Hong Kong Profits Tax has been made for the subsidiary of the Company established in Hong Kong (2016: Nil) as it did not have any assessable profits subject to Hong Kong Profits Tax for the period (2016: Nil).

4. LOSS PER SHARE

The calculation of the basic loss per share are based on the net loss attributable to owners of the Company for the nine months and the three months ended 30 September 2017 of approximately RMB6,041,000 (2016: RMB3,755,000) and RMB1,646,000 (2016: RMB634,000), respectively, and on the weighted average number of approximately 506,546,000 (2016: 506,546,000) shares in issue during the relevant periods.

Diluted loss per share was the same as basic loss per share for the nine months and three months ended 30 September 2017 and 2016 as there were no diluting events existed during the relevant periods.

5. RESERVES

Save as disclosed below, there were no movements in the reserves of the Group for the relevant periods in 2017 and 2016:

	Share premium RMB'000	Statutory surplus reserve RMB'000	Accumulated losses RMB'000
At 1 January 2016	101,336	10,567	(60,151)
Net loss	–	–	(3,121)
At 30 June 2016	101,336	10,567	(63,272)
Net loss	–	–	(634)
At 30 September 2016	101,336	10,567	(63,906)
At 1 January 2017	101,336	10,567	(63,681)
Net loss	–	–	(4,395)
At 30 June 2017	101,336	10,567	(68,076)
Net loss	–	–	(1,646)
At 30 September 2017	101,336	10,567	(69,722)

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2017 (2016: Nil).

REVIEW OF THE THIRD QUARTER

FINANCIAL REVIEW

1. Turnover

For the nine months ended 30 September 2017, the Group recorded an unaudited turnover of approximately RMB128,354,000 (2016: RMB77,514,000), representing an increase of approximately RMB50,840,000, or approximately 65.59%, as compared with the turnover of the same period in 2016. For the three months ended 30 September 2017, the Group recorded an unaudited turnover of approximately RMB48,996,000 (2016: RMB49,485,000), representing a decrease of approximately RMB489,000 or 0.99%, as compared with the turnover of the same period in 2016. The increase in the turnover of the Group for the nine months ended 30 September 2017 was mainly attributable to the substantial growth in the turnover of the trading of hardware and computer software business during the reporting period as compared with the corresponding period in last year. The turnover of the Group for the three months ended 30 September 2017 roughly remained stable as compared with that of the same period in 2016.

2. Gross profit margin

The gross profit margin of the Group for the nine months and the three months ended 30 September 2017 was approximately 7.44% (2016: 13.93%) and 6.76% (2016: 7.82%), respectively. The Group's gross profit margin for the nine months ended 30 September 2017 decreased significantly as compared with that of the same period in 2016. This was mainly due to the increased portion of the Group's total turnover generated from the business segment of trading of hardware and computer software of which the gross profit margin was substantially lower than that of the other business segments of the Group and the decreased portion of the Group's total turnover generated from the business segment of traditional telecommunication value-added service with relatively higher gross profit margin, in the reporting period. The gross profit margin of the Group for the three months ended 30 September 2017 roughly remained stable as compared with that of the same period in 2016.

3. Loss attributable to owners of the Company

The unaudited net loss attributable to owners of the Company for the nine months and the three months ended 30 September 2017 was approximately RMB6,041,000 (2016: RMB3,755,000) and RMB1,646,000 (2016: RMB634,000), respectively. During the nine months ended 30 September 2017, the Group continued to face the pressure of deteriorated operating environment and intensified market competition. Although a significant growth was recorded for the turnover of the trading of hardware and computer software business, given the relatively low gross profit margin of this business segment, its contribution to the improvement of the results of the Group was insignificant. Also, the new business currently developed by the Group had not yet created returns. As a result, the Group continued to incur a loss during the reporting period. There were increments in the losses for the nine months and the three months ended 30 September 2017, which were mainly attributable to the relatively large exchange loss on the Hong Kong dollars bank deposits of the Group as a result of the appreciation of Renminbi in the relevant periods, whereas, in the same periods in last year, there was relatively large exchange gain on the Hong Kong dollars bank deposits of the Group as a result of the depreciation of Renminbi in the relevant periods.

4. Bank balances and cash

As at 30 September 2017, the Group's unaudited total bank balances and cash amounted to approximately RMB56,301,000 (30 June 2017: RMB38,277,000). The total bank balances and cash to total assets and net assets ratios as at 30 September 2017 were approximately 48.27% (30 June 2017: 35.89%) and 58.98% (30 June 2017: 39.41%), respectively. The increase in the Group's total bank balances and cash as at 30 September 2017 as compared with that as at 30 June 2017 was mainly attributable to the relatively large settlement of trade receivables relating to the trading of hardware and computer software business.

BUSINESS AND OPERATION REVIEW

1. Business and product development

During the reporting periods, the Group continued to cooperate with the operators and operated the existing telecommunication value-added service business such as SMS business cards, 114 Bai Shi Tong Alliance business and precise marketing. At the same time, the Group's trading of hardware and computer software business maintained a stable source of turnover. However, the progress of the development and commercialisation of the Group's mobile Internet industrial application and service was still unsatisfactory, the investment in this area remained cautious and the Group has not yet succeeded in developing products with core competitiveness and contribution to the Group's results.

2. Investment and cooperation

During the reporting periods, the Group maintained good cooperation relationship with the operators and business partners.

On 29 September 2017, the Company as the purchaser, Mr. Zhang Xuguang (張旭光) and Hangzhou Kameng Internet Technology Company Limited* (杭州卡盟網絡科技有限公司) (“**Kameng**”) as the vendors (the “**Vendors**”) and the Kameng-related shareholders entered into the equity transfer agreement pursuant to which the Company has conditionally agreed to acquire, and the Vendors have conditionally agreed to sell, 100% of the equity interest in Increator Technology Co., Ltd.* (浙江創建科技有限公司) at the consideration of RMB25,200,000 (the “**Acquisition**”). The proposed Acquisition has not been completed up to the date of this report and is subject to approval at an extraordinary general meeting of the shareholders of the Company. Details of the proposed Acquisition have been set out in the announcement (the “**Announcement**”) of the Company dated 29 September 2017.

Besides the above-mentioned investment, the Group has also been actively seeking suitable project opportunities. However, there was no concrete progress up to present.

FUTURE PROSPECTS

1. Order backlog/sales contracts

During the reporting periods, all the telecommunication value-added service business of the Group were still within valid contract periods with the operators. These business at various locations were in operation at the sites concerned. At the same time, the Group's trading of hardware and computer software business maintained a stable source of turnover. The Group's development in the market of the industrial application of mobile Internet was still at the preliminary stage and has not generated any revenue.

2. Prospects for new business or new products and use of proceeds

The Group's new business development in the mobile Internet industrial application and service was still at a slow pace. Up to 30 September 2017, the Group has not invested any material amounts in the development of new business and approximately RMB11,088,000 (30 June 2017: RMB9,296,000) out of the total net proceeds (the "**Placing Proceeds**") of approximately RMB39,766,000 obtained by the Company from the placing of its H shares in the end of 2015 had been utilised for daily working capital.

In light of the change in the market, the Group has proposed to change the allocation of the use of the Placing Proceeds and intends to use part of the Placing Proceeds to settle part of the consideration for the proposed Acquisition as it considers that the proposed Acquisition would enhance its development in the mobile Internet industry. The proposed change of use of the Placing Proceeds is subject to approval at an extraordinary general meeting of the shareholders of the Company. Details of the proposed change of use of the Placing Proceeds have been set out in the Announcement.

Besides the proposed Acquisition, the Group will continue exploring new business or product with profitability in the mobile Internet industry, which will have positive effects on the improvement of the financial performance of the Group.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

Save as disclosed below, as at 30 September 2017, none of the Directors, supervisors or chief executives of the Company had interest in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange:

Long position in shares

Name	Capacity and nature of interest	Number of shares held	Percentage of beneficial interests in the Company's share capital
<i>Director and Vice Chairman</i>			
Mr. Chen Ping	Beneficial owner	27,294,240 domestic shares	5.39%

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES

During the nine months ended 30 September 2017, none of the Directors, supervisors, or chief executives of the Company was granted options to subscribe for shares of the Company. As at 30 September 2017, none of the Directors, supervisors or chief executives of the Company or any of their spouses and children under 18 years of age had any interest in, or had been granted any interest in, or had been granted, or exercised, had any rights to subscribe for shares (or warrants or debentures, if applicable) or to acquire shares of the Company.

SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") conditionally approved by a resolution of the shareholders of the Company dated 20 April 2002 was expired on 20 April 2012. No options had been granted by the Company under the Share Option Scheme since its adoption.

INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, so far as was known to any Directors, supervisors or chief executives of the Company, as at 30 September 2017, there were no persons or companies (other than the interests as disclosed above in respect of the Directors) who had equity interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed under Division 2 and 3 or Part XV of the SFO; or who were deemed to be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company; or who were shareholders of the Company as recorded in the register maintained under section 336 of the SFO:

Long position in shares

Name	Capacity and nature of interest	Number of shares held	Percentage of beneficial interests in the Company's share capital
<i>Substantial shareholders</i>			
Zhejiang Shenghua Holdings Group Company Limited* (浙江升華控股集團有限公司) ("Zhejiang Shenghua")	Beneficial owner and interest of a controlled corporation	217,126,930 domestic shares (Note 1) and 49,000,000 H shares (Note 2)	52.54%
Rise Sea Limited ("Rise Sea")	Beneficial owner	49,000,000 H shares (Note 2)	9.67%
Deqing Huisheng Investment Company Limited* (德清匯升投資有限公司) ("Deqing Huisheng")	Interest of a controlled corporation	217,126,930 domestic shares (Note 1) and 49,000,000 H shares (Note 2)	52.54%

Name	Capacity and nature of interest	Number of shares held	Percentage of beneficial interests in the Company's share capital
Mr. Xia Shilin	Interest of a controlled corporation	217,126,930 domestic shares (Note 1) and 49,000,000 H shares (Note 2)	52.54%
Ms. Qian Xiaomei	Interest of spouse	217,126,930 domestic shares and 49,000,000 H shares (Note 3)	52.54%
<i>Other persons</i>			
Mr. Wong Nga Chi	Beneficial owner	47,000,000 H shares	9.28%
Ms. Yin Cailian	Interest of spouse	47,000,000 H shares (Note 4)	9.28%
Ms. Ko Chiu Yu	Beneficial owner	36,500,000 H shares	7.21%
Mr. Gao Jie	Beneficial owner	17,500,000 H shares	3.45%
Mr. Fong For	Beneficial owner	16,560,000 H shares	3.27%

Notes:

- (1) Zhejiang Shenghua, a limited company established in the PRC, is directly interested in these 217,126,930 domestic shares. Zhejiang Shenghua is owned as to approximately 69.54% by Deqing Huisheng, a limited liability company established in the PRC, which in turn is owned as to 75% by Mr. Xia Shilin. For the purposes of the SFO, Deqing Huisheng and Mr. Xia Shilin are each deemed to be interested in the 217,126,930 domestic shares held by Zhejiang Shenghua.
- (2) These 49,000,000 H shares are registered under the name of Rise Sea. Rise Sea is a limited liability company incorporated in Hong Kong and is wholly-owned by Zhejiang Shenghua. Zhejiang Shenghua is owned as to approximately 69.54% by Deqing Huisheng, which in turn is owned as to 75% by Mr. Xia Shilin. For the purposes of the SFO, Zhejiang Shenghua, Deqing Huisheng and Mr. Xia Shilin are each deemed to be interested in the 49,000,000 H shares held by Rise Sea.
- (3) Ms. Qian Xiaomei is the spouse of Mr. Xia Shilin and therefore she and Mr. Xia Shilin are deemed to be interested in each other's shares under the SFO.
- (4) Ms. Yin Cailian is the spouse of Mr. Wong Nga Chi and therefore she and Mr. Wong Nga Chi are deemed to be interested in each other's H shares under the SFO.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

AUDIT COMMITTEE

The Company established an audit committee in November 2001 with written terms of reference in compliance with the requirements as set out in the GEM Listing Rules. The current audit committee comprises the three independent non-executive Directors, Mr. Shen Haiying, Mr. Cai Jiamei and Ms. Huang Lianxi, with Mr. Shen Haiying as the chairman.

The third quarterly report of the Group for the nine months ended 30 September 2017 has been reviewed by the Company's audit committee.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the nine months ended 30 September 2017.

By order of the Board
Shenghua Lande Scitech Limited*
Qi Jinsong
Chairman and Chief Executive Officer

Huzhou City, the PRC, 10 November 2017

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