



SHLD
升華蘭德

浙江升華蘭德科技股份有限公司
SHENGHUA LANDE SCITECH LIMITED*

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

Stock Code: 8106

2019

Interim Report

* For identification purposes only

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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

- Reported a revenue of approximately RMB106,592,000 for the six months ended 30 June 2019, representing an increase of approximately 18.41% as compared with the revenue for the corresponding period in 2018.
- Incurred a net loss of approximately RMB3,169,000 for the six months ended 30 June 2019, as compared with the net loss for the corresponding period in 2018 of approximately RMB6,200,000.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019.

The board (the “**Board**”) of Directors of the Company is pleased to present the interim report of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2019.

2019 INTERIM RESULTS

For the six months ended 30 June 2019, the Group recorded an unaudited revenue of approximately RMB106,592,000 (2018: RMB90,023,000), representing an increase of approximately RMB16,569,000 or approximately 18.41%, as compared with the revenue of the same period in 2018.

For the six months ended 30 June 2019, the Group recorded an unaudited net loss attributable to owners of the Company of approximately RMB3,169,000 (2018: RMB6,200,000).

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (2018: Nil).

CONDENSED INTERIM FINANCIAL STATEMENTS

The unaudited condensed interim financial statements of the Group for the six months ended 30 June 2019 together with the unaudited figures for the corresponding period in 2018 are set out as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the six months and three months ended 30 June 2019

	Notes	(unaudited) Six months ended 30 June		(unaudited) Three months ended 30 June	
		2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Revenue	3	106,592	90,023	55,194	49,486
Cost of sales		(93,067)	(81,519)	(47,543)	(45,173)
Gross profit		13,525	8,504	7,651	4,313
Other operating income, gains or losses		2,785	782	667	201
Distribution and selling expenses		(5,762)	(4,311)	(2,986)	(2,104)
General and administrative expenses		(12,399)	(10,456)	(2,384)	(2,288)
Research and development expenditure		(979)	(722)	(979)	(722)
Finance costs		(307)	-	(163)	-
(Loss) profit before tax	4	(3,137)	(6,203)	1,806	(600)
Income tax	5	(46)	-	(46)	-
(Loss) profit for the period		(3,183)	(6,203)	1,760	(600)
(Loss) profit for the period attributable to:					
Owners of the Company		(3,169)	(6,200)	1,739	(601)
Non-controlling interests		(14)	(3)	21	1
		(3,183)	(6,203)	1,760	(600)
(Loss) earnings per share					
– Basic and diluted (RMB)	8	(0.63) cents	(1.22) cents	0.34 cents	(0.12) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

		(unaudited) 30 June 2019 RMB'000	(audited) 31 December 2018 RMB'000
Non-current assets			
Plant and equipment		834	1,088
Intangible assets		1,075	1,225
Deferred tax assets		264	264
Goodwill		1,856	1,856
Other receivables		1,844	1,844
		5,873	6,277
Current assets			
Inventories		27,501	9,100
Trade receivables	9	43,539	31,283
Prepayments and other receivables		16,714	29,243
Contract assets		7,909	1,583
Financial assets at fair value through profit or loss		3,000	27,300
Bank balances and cash		32,419	35,172
		131,082	133,681
Current liabilities			
Trade and other payables	10	23,176	21,508
Contract liabilities/receipts in advance from customers		1,815	3,303
Bank borrowing		10,000	10,000
Income tax payable		56	56
		35,047	34,867
Net current assets		96,035	98,814
Net assets		101,908	105,091

	(unaudited) 30 June 2019 RMB'000	(audited) 31 December 2018 RMB'000
<i>Notes</i>		
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Capital and reserves		
Paid-in capital	50,655	50,655
Reserves	49,054	52,223
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Equity attributable to owners of the Company	99,709	102,878
Non-controlling interests	2,199	2,213
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Total equity	101,908	105,091
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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

(unaudited)
Six months ended 30 June
2019 2018
RMB'000 RMB'000

Net cash (outflow) inflow from operating activities	(26,730)	469
Net cash inflow (outflow) from investing activities	24,268	(3,900)
Net cash outflow from financing activities	(291)	–
Net decrease in cash and cash equivalents	(2,753)	(3,431)
Cash and cash equivalents at beginning of period	35,172	48,582
Cash and cash equivalents at end of period	32,419	45,151

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	(unaudited)						
	Paid-in capital	Share premium	Statutory surplus reserve	Accumulated losses	Equity attributable to owners of the Company	Non- controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2019	50,655	101,336	11,515	(60,628)	102,878	2,213	105,091
Net loss	-	-	-	(4,908)	(4,908)	(35)	(4,943)
Balance as at 31 March 2019	50,655	101,336	11,515	(65,536)	97,970	2,178	100,148
Net profit	-	-	-	1,739	1,739	21	1,760
Balance as at 30 June 2019	50,655	101,336	11,515	(63,797)	99,709	2,199	101,908
Balance as at 1 January 2018	50,655	101,336	10,567	(68,073)	94,485	2,755	97,240
Net loss	-	-	-	(5,599)	(5,599)	(4)	(5,603)
Balance as at 31 March 2018	50,655	101,336	10,567	(73,672)	88,886	2,751	91,637
Net (loss) profit	-	-	-	(601)	(601)	1	(600)
Balance as at 30 June 2018	50,655	101,336	10,567	(74,273)	88,285	2,752	91,037

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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 were set out in the prospectus of the Company dated 24 April 2002.

The condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" published by the International Accounting Standards Board and the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules.

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the condensed interim financial statements were consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2018.

3. REVENUE AND SEGMENT INFORMATION

Revenue comprised income from the trading of hardware and computer software, provision of telecommunication value-added services, provision of smart city solutions and provision of e-commerce supply chain services, net of discounts, during the relevant periods.

The Group's operating segments, based on information reported to the chief operating decision maker, being the executive Directors, were for the purposes of resource allocation and performance assessment. The executive Directors have chosen to organise the Group around differences in products and services. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable segments were as follows:

1. provision of telecommunication solutions
2. trading of hardware and computer software
3. provision of telecommunication value-added services
4. provision of smart city solutions
5. provision of e-commerce supply chain services

There were no segment revenue, segment results, segment assets or liabilities attributable to the provision of telecommunication solutions segment since 1 January 2018 and accordingly no segment information was presented.

The provision of e-commerce supply chain services was commenced during the last quarter of the year ended 31 December 2018.

The following is an analysis of the Group's revenue, results, assets and liabilities by reportable segments and geographical information.

(a) Segment revenues and results

	Trading of hardware and computer software RMB'000	Provision of telecommunication valued-added services RMB'000	Provision of smart city solutions RMB'000	Provision of e-commerce supply chain services RMB'000	Consolidated RMB'000
For the six months ended 30 June 2019 (unaudited)					
Segment revenue	51,844	3,343	17,766	33,639	106,592
Segment results	301	307	(910)	365	63
Unallocated expenses, net					(3,200)
Loss before tax					(3,137)
For the six months ended 30 June 2018 (unaudited)					
Segment revenue	70,353	5,654	14,016	-	90,023
Segment results	448	425	(3,467)	-	(2,594)
Unallocated expenses, net					(3,609)
Loss before tax					(6,203)

(b) Segment assets and liabilities

	Trading of hardware and computer software RMB'000	Provision of telecommunication valued-added services RMB'000	Provision of smart city solutions RMB'000	Provision of e-commerce supply chain services RMB'000	Consolidated RMB'000
As at 30 June 2019 (unaudited)					
Segment assets	55,301	391	29,252	7,850	92,794
Unallocated assets					44,161
Total assets					136,955
Segment liabilities	10,559	135	9,062	461	20,217
Unallocated liabilities					14,830
Total liabilities					35,047
As at 31 December 2018 (audited)					
Segment assets	40,875	188	24,035	4,739	69,837
Unallocated assets					70,121
Total assets					139,958
Segment liabilities	9,596	237	13,377	372	23,582
Unallocated liabilities					11,285
Total liabilities					34,867

(c) Geographical information

Based on the place of operation of the external customers, revenue attributable to the PRC and other countries for the six months ended 30 June 2019 was approximately RMB72,953,000 (2018: RMB90,023,000) and RMB33,639,000 (2018: Nil), respectively.

The Group's assets, liabilities and capital expenditures were predominantly attributable to a single geographical region, which is the PRC. Therefore, no analysis by geographical regions has been presented.

4. (LOSS) PROFIT BEFORE TAX

(Loss) profit before tax has been arrived at after charging:

	(unaudited) Six months ended 30 June		(unaudited) Three months ended 30 June	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation and amortisation	471	639	220	496
Exchange loss (gain)	196	–	(467)	(1,040)

5. INCOME TAX

	(unaudited) Six months ended 30 June		(unaudited) Three months ended 30 June	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
PRC Enterprise Income Tax ("EIT")	46	–	46	–

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 relevant periods was 25% (2018: 25%). During the relevant periods, one of the subsidiaries of the Company was subject to EIT at a rate of 15% (2018: 15%) as it was classified as an Advanced and New Technology Enterprise (高新科技企業).

No provision for EIT has been made for the Group for the relevant periods (2018: Nil) as there was no assessable profit derived by the Group for the relevant periods (2018: Nil). The EIT charges for the relevant periods represented income tax charges incurred by the representative office set up in Hangzhou City by the subsidiary of the Company established in Hong Kong, pursuant to domestic tax law.

During the relevant periods, no provision for Hong Kong Profits Tax has been made for the subsidiary of the Company established in Hong Kong (2018: Nil) as it did not have any material assessable profits subject to Hong Kong Profits Tax for the relevant periods (2018: Nil).

6. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (2018: Nil).

7. RESERVES

Other than those disclosed in the condensed consolidated statement of changes in equity, there were no movements in the reserves of the Group for the relevant periods in 2019 and 2018.

8. (LOSS) EARNINGS PER SHARE

The calculation of the basic loss per share for the six months ended 30 June 2019 was based on the net loss attributable to owners of the Company of approximately RMB3,169,000 (2018: RMB6,200,000) and on approximately 506,546,000 (2018: 506,546,000) shares in issue during the period.

The calculation of the basic earnings per share for the three months ended 30 June 2019 was based on the net profit attributable to owners of the Company of approximately RMB1,739,000 (2018: loss of RMB601,000) and on approximately 506,546,000 (2018: 506,546,000) shares in issue during the period.

Diluted (loss) earnings per share was the same as basic (loss) earnings per share for the six months and the three months ended 30 June 2019 and 2018 as there were no potential ordinary shares existed during the relevant periods.

9. TRADE RECEIVABLES

	(unaudited)	(audited)
	30 June	31 December
	2019	2018
	RMB'000	RMB'000
Trade receivables	44,044	31,815
Less: allowances for impairment losses	(505)	(532)
	43,539	31,283

There were no specific credit periods granted to customers except for an average credit period of 30-90 (year ended 31 December 2018: 30-90) days to the Group's trade customers under the trading of hardware and computer software segment. Aging analysis of the trade receivables net of allowances for impairment losses as at the end of reporting period, presented based on the invoice date which approximated to revenue recognition date was as follows:

	(unaudited)	(audited)
	30 June	31 December
	2019	2018
	RMB'000	RMB'000
0 to 60 days	20,851	22,348
61 to 90 days	4,499	769
91 to 180 days	7,405	6,130
Over 180 days	10,784	2,036
	43,539	31,283

10. TRADE AND OTHER PAYABLES

	(unaudited) 30 June 2019 RMB'000	(audited) 31 December 2018 RMB'000
Trade payables	17,906	14,277
Other payables and accruals	5,270	7,231
	23,176	21,508

Aging analysis of the trade payables as at the end of reporting period presented based on the invoice date was as follows:

	(unaudited) 30 June 2019 RMB'000	(audited) 31 December 2018 RMB'000
Less than one year	13,483	6,778
Over one year but less than two years	1,630	5,259
Over two years but less than three years	643	285
More than three years	2,150	1,955
	17,906	14,277

MANAGEMENT DISCUSSION AND ANALYSIS

I. REVIEW OF OPERATIONS

1. Review of operating results for the period

Overview

The Group is principally engaged in (i) the provision of telecommunication solutions; (ii) the trading of hardware and computer software; (iii) the provision of telecommunication value-added services; (iv) the provision of smart city solutions (the business mainly provides software development and value-added services relating to the construction and operation maintenance of the Citizen Card* (市民卡) systems to the customers); and (v) the provision of e-commerce supply chain services (the business involves the e-trading of general merchandise and the provision of related services, which includes the provision of supply chain services from the production end, the procurement end to the consumer end for market customers such as e-commerce platforms, branded manufacturers and merchants through the integration of Internet information technology means and data analysis, and was commenced by the Group in the last quarter of 2018).

There is no particular seasonal fluctuation in the Group's revenue except that revenues from various business segments in the first quarter are in general lower than in other quarters. This is primarily due to decreased business activities throughout the PRC before, during and after the week-long Chinese New Year holidays, which occur in January or February of a year. However, the characteristics of the provision of smart city solutions business of the Group is project based. Currently the main revenue of the business comes from specific projects and the income depends on the obtaining of project orders and the progress of projects and therefore it is volatile.

In line with industry performance, the Group's hardware and computer software sales and e-trading of general merchandise normally have relatively low gross profit margin. With the continuous optimisation of product structure and sales strategies and the improvement of service levels, the gross profit margin will increase accordingly. On the other hand, the Group's provision of software development, technical support and various value-added services normally enjoy relatively higher gross profit margin, which vary among different projects and/or products.

Revenue

For the six months and three months ended 30 June 2019, (i) the provision of telecommunication solutions business had not generated revenue (2018: Nil); (ii) the trading of hardware and computer software business generated revenue of approximately RMB51,844,000 (2018: RMB70,353,000) and RMB26,360,000 (2018: RMB35,013,000), respectively, representing approximately 26.31% and 24.71% decrease, respectively, when compared to the same periods of last year, which was due to the Group's continuous adjustment to the sales strategy and sales structure of the business in the relevant periods, increasing the sales of relatively higher gross profit margin brands and products, and reducing the sales of low gross profit margin brands and products; (iii) the provision of telecommunication value-added services business generated revenue of approximately RMB3,343,000 (2018: RMB5,654,000) and RMB1,984,000 (2018: RMB2,763,000), respectively, representing approximately 40.87% and 28.19% decrease, respectively, when compared to the same periods of last year. The business was constrained by the industry downturn, which led to a further decline in the volume of the business in the relevant periods. In addition, the national policy to strengthen the regulatory restrictions on related call business also affected the income of the business; (iv) the provision of smart city solutions business generated revenue of approximately RMB17,766,000 (2018: RMB14,016,000) and RMB8,490,000 (2018: RMB11,710,000), respectively, representing approximately 26.76% increase and 27.50% decrease, respectively, when compared to the same periods of last year. Due to the difference in the contract amounts for the projects under construction in each period, and the progress of the completion of the projects, there was a certain fluctuation in the amount of revenue recognised between the respective periods for the business; and (v) the provision of e-commerce supply chain services business generated revenue of approximately RMB33,639,000 (2018: Nil) and RMB18,360,000 (2018: Nil), respectively. The Group commenced the business in the last quarter of 2018.

For the six months ended 30 June 2019, the unaudited revenue of the Group was approximately RMB106,592,000 (2018: RMB90,023,000), representing an increase of approximately RMB16,569,000, or approximately 18.41%, as compared with that of the same period in 2018. For the three months ended 30 June 2019, the unaudited revenue of the Group is approximately RMB55,194,000 (2018: RMB49,486,000), representing an increase of approximately RMB5,708,000, or approximately 11.53%, as compared with that of the same period in 2018. The overall revenue of the Group increased during the relevant periods, which was mainly due to the new e-commerce supply chain services business conducted during the relevant periods.

Gross profit margin

For the six months and three months ended 30 June 2019, (i) the provision of telecommunication solutions business had not generated gross profit (2018: Nil); (ii) the gross profit margin of the trading of hardware and computer software business was approximately 5.74% (2018: 2.74%) and 5.21% (2018: 3.04%), respectively. Compared with the same periods of last year, the gross profit margin of this business increased significantly as the Group continued to adjust the sales strategy and sales structure of this business by increasing the sales of brands and products with relatively higher gross profit margin, while decreasing the sales of brands and products with low gross profit margin; (iii) the gross profit margin of the provision of telecommunication value-added services business was approximately 86.51% (2018: 81.69%) and 80.59% (2018: 78.47%), respectively; (iv) the gross profit margin of the provision of smart city solutions business was approximately 27.18% (2018: 13.96%) and 34.89% (2018: 9.23%), respectively. Compared with the same periods of last year, the gross profit margin of the business has increased, mainly due to the higher gross profit margin of some of the projects of the business during the relevant periods, which led to the growth in the overall gross profit margin; and (v) the gross profit margin of the provision of e-commerce supply chain services business was approximately 8.41% (2018: not applicable) and 9.35% (2018: not applicable), respectively.

The unaudited gross profit margin of the Group for the six months and three months ended 30 June 2019 was approximately 12.69% (2018: 9.45%) and 13.86% (2018: 8.72%), respectively. The Group's consolidated gross profit margin increased during the relevant periods compared to the same periods of last year, mainly due to the following reasons: appropriate adjustments to the sales strategy and sales structure of the trading of hardware and computer software business to increase the gross profit margin; higher gross profit margin of some of the projects in progress of the smart city solutions business during the relevant periods, which would help the overall gross profit margin improvement; and, at the same time, by cultivating the e-commerce supply chain services business and ultimately adjusting the business structure of the Group, continuous lowering of the proportion of revenue from the low-margin trading of hardware and the computer software business and prompting of further improvement in the overall gross profit margin.

(Loss) profit attributable to owners of the Company and (loss) earnings per share

For the six months and three months ended 30 June 2019, (i) the provision of telecommunication solutions business had not recorded segment results (2018: Nil); (ii) the trading of hardware and computer software business reported segment profit of approximately RMB301,000 (2018: RMB448,000) and RMB168,000 (2018: RMB201,000), respectively; (iii) the provision of telecommunication value-added services business reported segment profit of approximately RMB307,000 (2018: RMB425,000) and RMB421,000 (2018: RMB165,000), respectively; (iv) the provision of smart city solutions business reported segment loss of approximately RMB910,000 (2018: RMB3,467,000) and profit of approximately RMB1,711,000 (2018: loss of RMB492,000), respectively. During the relevant periods, the profitability of the business segment improved due to the higher gross profit margin of the projects in progress, and also the significant increment in various government subsidies and tax refunds obtained during the relevant periods when comparing to the same periods of last year; and (v) the provision of e-commerce supply chain services business reported segment profit of approximately RMB365,000 (2018: Nil) and RMB329,000 (2018: Nil), respectively. For the six months and three months ended 30 June 2019, the net unallocated expenses of the Group were approximately RMB3,200,000 (2018: RMB3,609,000) and RMB824,000 (2018: RMB474,000), respectively.

As a result of the above, for the six months ended 30 June 2019, the Group had an unaudited net loss attributable to owners of the Company and loss per share of approximately RMB3,169,000 (2018: RMB6,200,000) and RMB0.63 cents (2018: RMB1.22 cents), respectively; and for the three months ended 30 June 2019, the Group had an unaudited net profit attributable to owners of the Company and earnings per share of approximately RMB1,739,000 (2018: loss of RMB601,000) and RMB0.34 cents (2018: loss of RMB0.12 cents), respectively.

2. Business and product development

During the reporting period, the telecommunication solutions business of the Group continued to seek for obtaining new order revenue through internal resource integration, but still have not achieved results. The Group's trading of hardware and computer software business continued to strengthen the sales team construction and sales strategy improvement. The revenue for the relevant periods has decreased, but the profitability has continued to improve with growth in the gross profit margin. In respect of the telecommunication value-added services business, the Group continued the cooperation with the telecommunication operators for the provision of the services such as SMS business cards (短信名片), 114 Bai Shi Tong Alliance (114號碼百事通), precise marketing (精準行銷) and etc.. Due to the reduced market demand for these services, the revenue for this business has decreased compared with the same periods of last year. Against the status quo of the business, the Group has been reconsidering the development model of the business and would making necessary adjustments thereto according to the actual situation of the relevant business market. The smart city solutions business of the Group was in normal development and providing the customers with relevant software development and value-added services, and its business contracts were implemented in various places. The business was an important carrier for the Group's transformation into the mobile Internet field and the Group continued to promote the acquisition of new project contracts and project implementation of this business inside and outside Zhejiang Province. The Group has also been encouraging the business's breakthrough in operation services, accelerating the participation in the construction and operation services of smart unions in Hangzhou City, Zhejiang Province, through Hangzhou Increator Smart Union Technology Co., Ltd.* (杭州創建智工科技有限公司) ("**Increator Smart Union**"), a wholly-owned subsidiary of the Group established in the last quarter of 2018, and taking effective measures to achieve early operation services in other areas. During the

reporting period, the Group's e-commerce supply chain services business (commenced by the Group since the fourth quarter of 2018) continued to cooperate with the well-known cross-border e-commerce platforms in the Mainland to open up upstream and downstream channels and provide cross-border e-commerce general merchandise supply chain services.

The Group continued to actively explore the complementary advantages of the smart city solutions business and the resources of other businesses of the Group to develop new solutions and value-added service products, and explore the formation of a sustainable and stable business profit model to enhance the overall profitability of the Group's business and products. The new business and new product development carried out around these businesses would help the Group to deepen into the field of mobile Internet and gain more commercial value and business opportunities.

3. Investment and cooperation

Business investment and cooperation

On 15 July 2019, Increator Technology Co., Ltd.* (浙江創建科技有限公司) ("**Increator Technology**"), a wholly-owned subsidiary of the Company, entered into an investment agreement (the "**Investment Agreement**") with Guizhou Broadcasting and Television Network Co., Ltd.* (貴州省廣播電視信息網絡股份有限公司) ("**Guiguang Network**"), pursuant to which Increator Technology and Guiguang Network have agreed to establish Guifutong Network Technology Co., Ltd.* (貴服通網絡科技有限責任公司) (the "**Joint Venture Company**") in Guiyang City, Guizhou Province, the PRC for the purpose of the construction and operation of the Guifutong Platform* (貴服通平臺) and the related value-added application service platform and big data platform. According to the Investment Agreement, the registered capital of the Joint Venture Company was RMB50,000,000 and each of Increator Technology and Guiguang Network has agreed to contribute to the registered capital of the Joint Venture Company at RMB16,500,000 and RMB33,500,000, respectively. Details of the Investment Agreement and the Joint Venture Company were set out in the announcement of the Company dated 15 July 2019.

Besides the above-mentioned investment, the Group has also been constantly seeking suitable investment opportunities or business cooperation opportunities, including opportunities for expansion of existing businesses and other potential new business opportunities suitable for the Group's development. However, there has been no concrete progress up to present.

During the reporting period, the Group also maintained good cooperation relationship with the telecommunication operators, Citizen Card* (市民卡) management companies at various places, e-commerce platforms and other business partners.

Investments in wealth management products

Since the year ended 31 December 2018 and during the reporting period, the Group subscribed for and held various short-term investments, from time to time, in the wealth management products (the “**Wealth Management Products**”) issued by Bank of China Limited. The Wealth Management Products had no fixed maturity period and were not principal protected nor with pre-determined or guaranteed return. The underlying investments of the Wealth Management Products were primarily (i) money market instruments (such as various types of deposits, certificates of deposit, pledged repo, etc.); (ii) fixed income securities (such as fixed income products like corporate and government bonds); and (iii) non-standardised assets that met regulatory requirements and other financial investment instruments approved by the regulatory authorities (such as trust loans, acceptance bills and/or letters of credit, etc.). The expected annualised rate of return of the Wealth Management Products was around 2.00% to 3.85%, which was relatively higher than the comparable market bank deposit interest rates.

The subscriptions of the Wealth Management Products were made for treasury management purpose to maximise the return on the unutilised funds of the Group after taking into account, among others, the level of risk, return on investment and term to maturity. The Group generally subscribed for standard short-term wealth management products issued by creditworthy banks with its temporary unused funds, on a revolving basis. Although the Wealth Management Products were marketed as wealth management products which were not principal protected nor with pre-determined or guaranteed return, the underlying investments were considered to have relatively low risk and be also in line with the internal risk management, cash management and investment policies of the Group as the Group had totally recovered the principal and received the expected returns upon the redemption of the Wealth Management Products in the past. In addition, the Wealth Management Products were with flexible redemption terms or a relatively short term of maturity, and which were considered to akin to placing deposits with banks whilst enabling the Group could also earn more lucrative returns than spot bank savings or

time deposit interest rates. Also, in view of the low risk nature and the flexible redemption terms or a relatively short term of maturity of the Wealth Management Products, the Directors were of the view that the Wealth Management Products posed little risk to the Group and the terms and conditions of each of the subscriptions of the Wealth Management Products was fair and reasonable and was in the interests of the Company and its shareholders (the “**Shareholders**”) as a whole. The Group could maximise the overall returns to the Shareholders while maintaining the flexibility of the Group’s treasury management.

Details of the subscriptions and/or redemptions of the Wealth Management Products during the six months ended 30 June 2019 which constituted notifiable transactions of the Company under Chapter 20 of the GEM Listing Rules were set out in the announcement of the Company dated 16 July 2019.

As at 30 June 2019, the Group’s investments in the Wealth Management Products were classified as financial assets at fair value through profit or loss in its consolidated statement of financial position, and amounted to approximately RMB3,000,000 (31 December 2018: RMB27,300,000). For the six months and three months ended 30 June 2019, the gain realised by the Group from the Wealth Management Products amounted to approximately RMB362,000 (2018: RMB77,000) and RMB136,000 (2018: RMB56,000), respectively.

4. **Employees information**

As at 30 June 2019, the Group had 179 (31 December 2018: 173) employees in total. The total staff costs of the Group for the reporting period amounted to approximately RMB18,120,000 (2018: RMB14,783,000). During the period, the staff cost of the Group has increased, mainly due to the increase in the employee rewards as a result of the improvement in the performance of the previous year. In addition, the Group has increased the labour cost investment in cultivating the e-commerce supply chain services business team.

The Group's human resources management strategy was formulated in accordance with the Group's guidelines of development strategy on one hand and with requirements under long term vision planning as its target direction on the other. At the same time, incentive scheme would be embedded in other human resources programs and flourishing result was expected from this cross match. The Group opened wide for recruitment channels, set up mechanisms for attracting human resources, grasped for human development and formulated a good system in people deployment and incubation. The Group implemented an annual income target system which was linked up with staff performance appraisal and compensation system. Target annual income was confirmed and released in accordance with performance appraisal result. After a total assessment on employee's job performance, capability and work attitude, an integrated evaluation could be established for the employee which would be used as referencing standard. Through the integration of the two systems, the employees were effectively motivated and the attainment of the Group's target was assured.

The Group did envisage on employee's personal development and provided employees with training courses on quality and skills. Training plan was given to suit individual staff to help each one more compatible with the Company's job requirement and ensured comprehensive development during his/her career life.

The Group did not issue any share options nor had any bonus plan.

II. REVIEW OF FINANCIAL PERFORMANCE AND POSITIONS

1. Financial performance

- For the six months and three months ended 30 June 2019, the Group's revenue amounted to approximately RMB106,592,000 (2018: RMB90,023,000) and RMB55,194,000 (2018: RMB49,486,000), respectively.
- For the six months and three months ended 30 June 2019, the Group achieved a gross profit margin of approximately 12.69% (2018: 9.45%) and 13.86% (2018: 8.72%), respectively.

- For the six months ended 30 June 2019, the Group had a net loss attributable to owners of the Company of approximately RMB3,169,000 (2018: RMB6,200,000). For the three months ended 30 June 2019, the Group had a net profit attributable to owners of the Company of approximately RMB1,739,000 (2018: loss of RMB601,000).
- For the six months ended 30 June 2019, the Group had a loss per share of approximately RMB0.63 cents (2018: RMB1.22 cents). For the three months ended 30 June 2019, the Group had an earnings per share of approximately RMB0.34 cents (2018: loss of RMB0.12 cents).

2. Financial positions

- The Group maintained creditable financial conditions. For the six months ended 30 June 2019, the Group was mainly financed by proceeds generated from daily operations, other internal resources and bank borrowing.
- As at 30 June 2019, the Group had inventories of approximately RMB27,501,000 (31 December 2018: RMB9,100,000). The increase in the Group's inventories during the reporting period was mainly attributable to the increase in inventory of computer server hardware.
- As at 30 June 2019, the Group had trade receivables of approximately RMB43,539,000 (31 December 2018: RMB31,283,000). The increase in the Group's trade receivables during the reporting period was mainly attributable to the increase in trade receivables under the trading of hardware and computer software business segment.
- As at 30 June 2019, the Group had prepayments and other receivables of approximately RMB18,558,000 (31 December 2018: RMB31,087,000). The decrease in the Group's prepayments and other receivables during the reporting period was mainly attributable to the decrease in prepayments made to hardware and computer software suppliers.

- As at 30 June 2019, the Group had contract assets of approximately RMB7,909,000 (31 December 2018: RMB1,583,000). The increase in the Group's contract assets during the reporting period was mainly attributable to the increase in contract assets recognised under the smart city solutions business segment.
- As at 30 June 2019, the Group's total bank balances and cash and financial assets at fair value through profit or loss (which represented the Wealth Management Products as detailed above) amounted to approximately RMB35,419,000 (31 December 2018: RMB62,472,000). The total bank balances and cash and financial assets at fair value through profit or loss to total assets and net asset ratios as at 30 June 2019 were approximately 25.86% (31 December 2018: 44.64%) and 34.76% (31 December 2018: 59.45%), respectively.
- As at 30 June 2019, the Group had total assets of approximately RMB136,955,000 (31 December 2018: RMB139,958,000).
- As at 30 June 2019, the Group had total current liabilities of approximately RMB35,047,000 (31 December 2018: RMB34,867,000).
- As at 30 June 2019, the Group had equity attributable to owners of the Company of approximately RMB99,709,000 (31 December 2018: RMB102,878,000).
- As at 30 June 2019, the Group had non-controlling interests of approximately RMB2,199,000 (31 December 2018: RMB2,213,000).
- As at 30 June 2019, the Group had a gearing ratio (i.e. the ratio of total liabilities to total assets) of approximately 25.59% (31 December 2018: 24.91%).
- As at 30 June 2019, the Group had a net current ratio (i.e. the ratio of current liabilities to current assets) of approximately 26.74% (31 December 2018: 26.08%).

- The Group's exposure to foreign currency risk relates principally to its bank balances, trade receivables, other receivables, contract assets and trade and other payables denominated in foreign currencies other than the functional currency of the relevant group entity. The Group currently does not have a foreign currency hedging policy. However, the Directors continuously monitor the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.
- As at 30 June 2019, none of the Group's assets were pledged (31 December 2018: Nil).

III. FUTURE PROSPECTS

1. Order backlog/sales contracts

During the reporting period, the telecommunication solutions business of the Group did not obtain orders and there were difficulties in its advancement. The Group's trading of hardware and computer software business worked with well-known hardware and software vendors in the industry to gradually improve business revenue structure and profitability. All telecommunication value-added service businesses of the Group in cooperation with the telecommunication operators were still within valid contract periods. These businesses at various locations were in operation at the sites concerned. Affected by market demand and policy control, existing service products were difficult to support the sustainable development of the business, and necessary adjustments would be required. The construction service contracts of the Group's smart city solutions business are being implemented at various locations inside and outside Zhejiang Province as planned, and are mainly related to the software development and/or provision of related value-added services projects for the construction and operation maintenance of the Citizen Card* (市民卡) systems. At the same time, the Group is striving for business orders and contracts in other cities. The Group's e-commerce supply chain services business is at the start-up stage, and have established good cooperative relations with many domestic e-commerce platforms, domestic and foreign brand manufacturers and merchants, and are seeking more business cooperation orders, especially more upstream brand resources.

The Group is considering the complementary synergies between Increator Technology, a wholly-owned subsidiary acquired by the Group in the first quarter of last year, and the other businesses of the Group, and endeavors to re-establish contact with telecommunication operators and other new customers through the technology and sales capabilities of Increator Technology to obtaining telecommunication solution and other solution contracts; makes use of the expansion and implementation of the smart city solutions business in various places across the country to striving for telecommunication value-added services business orders from telecommunication operators in other regions or provinces and obtaining other related value-added service contracts; takes advantage of the development of the smart city solutions business to pursuing supporting hardware sales contracts; seeks to access the e-commerce supply chain services business with the help of the operation service platforms involved in the smart city solutions business. The Group, through the establishment of Increator Smart Union by Increator Technology at the end of last year, the establishment of the Joint Venture Company with Guiguang Network this year, and etc., will be able to obtain more business orders.

2. Prospects of new business and new products

The Group is actively employing the technology development and business development capabilities of Increator Technology to achieve the innovation and development of its traditional businesses and mobile Internet services business; allowing the Group to tap into the mobile Internet industry through the business of Increator Technology, namely the research and development, the construction and the potential operation of the Citizen Card* (市民卡) system, and gain more commercial value and business opportunities.

The Group will continue to expand its business in the following three directions: (i) improving the profitability of the trading of hardware and computer software business, continuously adjusting the sales strategy to increase the sales of the brands and product categories with higher gross profit margin and to decrease the sales of the brands and product categories with relatively lower gross profit margin, enhancing the terminal hardware customer sales, and relying on smart city solutions business development to seek supporting hardware sales business; (ii) breaking the self-restriction of the original telecommunication solutions business and the telecommunication value-added services business, no longer limited to telecommunication operators, and try to promote solutions and value-added services in other broad fields with the help of the technology and business development of Increator Technology, facilitating the Group's transformation into mobile Internet companies; and (iii) grasping the good development opportunities for smart city construction and promoting the smart city solutions business, strengthening technology research and development, encouraging the continuous improvement and marketing of Increator Technology's Digital Citizen* (數字市民) products (system products based on the core Citizen Card* (市民卡) system developed with higher service standards and a wider range of services), while deepening the traditional project engineering business, intensifying the negotiation of Citizen Card* (市民卡) system operation service projects in order to try to commence cooperative operation in appropriate cities as soon as possible, and making use of the help of the newly established Increator Smart Union and the prospective Joint Venture Company, etc., to operate the service business platform. This will provide physical platform for the Group's commercial operation when entering the mobile Internet services, which will combine with the resources and experience accumulated by the Group's original telecommunication value-added services business, promote the Group's transition to mobile "Internet +" and provide new value-added services.

Besides, the Group will focus on the mobile Internet industry, combine the existing business and technological advantages and continue to seek new business opportunities, build a business ecosystem with sustainable development capabilities and create an integrated service platform for smart city life, for example, through the establishment and operation of a Citizen Card* (市民卡) operating platform (a mobile Internet business platform with a wide range of end-user groups (local citizens, enterprises, institutions)) and the use of the wide customer base of the platform, provide various convenient value-added services and business activities, including e-commerce services, etc., to meet the interests of the Group and the Shareholders as a whole. Therefore, in addition to the above-mentioned three aspects, the Group will continue to attach importance to the cultivation and development of the provision of e-commerce supply chain services, and actively accumulate upstream and downstream channel resources, so that the business can achieve good performance as soon as possible, while at the same time, the product resources and service capabilities of the business with sufficient profit potential can be quickly accessed and empowered to create a smart city life integrated service platform, thereby achieving synergy and complementation of internal business sector resources. The Board believes that the Group will, through the continued enhancement of its business development capabilities and condensation of its internal resources, consolidate and enhance the Group's comprehensive competitiveness and achieve important breakthroughs in new business and new products in the areas of mobile Internet services and smart city construction.

3. Use of 2015 Placing Proceeds

The change of use of the net proceeds (the “**2015 Placing Proceeds**”) received by the Company from the placing of its 150,000,000 new H shares in the end of the year 2015 has been approved by the Shareholders at the extraordinary general meeting held on 29 January 2018. Relevant details were set out in the announcements of the Company dated 29 September 2017, 23 October 2017, 24 November 2017, 13 December 2017 and 29 January 2018, and the circular of the Company dated 15 December 2017, respectively.

Up to 30 June 2019, the use of the 2015 Placing Proceeds by the Company are summarised in the following table:

No.	Uses of net proceeds	Allocation (Revised as per approval by the Shareholders at the extraordinary general meeting held on 29 January 2018)		
		Utilised amount as at 30 June 2019	Remaining balance as at 30 June 2019	
(a)	Investments in research and development in relation to telecommunication solutions and telecommunication value-added services, developing data mining technologies and online business and its application or marketing platform, creating business platforms for corporate mobile Internet, with a view to transforming towards "Internet +"	Approximately RMB5,000,000	Approximately RMB979,000	Approximately RMB4,021,000 (Note)
(b)	Future investments	Approximately RMB10,000,000	Approximately RMB10,000,000	-
(c)	General working capital	Approximately RMB21,000,000	Approximately RMB21,000,000	-
(d)	Settlement of consideration for the acquisition of Increator Technology	Approximately RMB6,000,000	Approximately RMB6,000,000	-

Note:

The Group is making great efforts to transform into the mobile Internet industry. With the expansion of the Group's mobile Internet operation services business, the funds will be used in a timely manner for research and development of projects included in the intended use of net proceeds to meet the needs of the development of the operation services business. It is currently expected that the remaining balance of the funds will be used in 2019.

DIRECTORS' AND CHIEF EXECUTIVES' INFORMATION

The following set out the changes in the information of the Directors and the chief executives of the Company which was required to be disclosed pursuant to Rule 17.50A (1) of the GEM Listing Rules:

Mr. Qi Jinsong

With effective from 10 June 2019, Mr. Qi Jinsong has resigned as the director of Shenghua Scitech Information Limited, a wholly-owned subsidiary of the Company.

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

Save as disclosed below, as at 30 June 2019, 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 were 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 Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by the 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

For the six months ended 30 June 2019, none of the Directors, supervisors or chief executives of the Company was granted options to subscribe for the shares of the Company (2018: Nil). As at 30 June 2019, 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 the shares (or warrants or debentures, if applicable) of the Company or to acquire the shares of the Company (2018: Nil).

SHARE OPTION SCHEME

The Company's share option scheme (the "**Share Option Scheme**") conditionally approved by a resolution of the Shareholders 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.

INTERESTS DISCLOSEABLE UNDER THE SFO AND THE SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, so far as was known to any Directors, supervisors or chief executives of the Company, as at 30 June 2019, 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 Divisions 2 and 3 of 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 of the Company carrying rights to vote in all circumstances at general meetings of the Company; or who were Shareholders 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%
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%

Name	Capacity and nature of interest	Number of shares held	Percentage of beneficial interests in the Company's share capital
<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. 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 these 217,126,930 domestic shares.
- (2) These 49,000,000 H shares are beneficially owned by 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 owned 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 management Shareholders and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competed or might 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 condensed interim financial statements and the interim report for the six months ended 30 June 2019 have not been audited or reviewed by the Company's auditor, but have been reviewed by the Company's audit committee.

COMPARATIVE FIGURES

To conform to the current period's presentation, certain comparative figures in the condensed interim financial statements have been reclassified to facilitate a better presentation.

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 six months ended 30 June 2019 (2018: Nil).

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2019, the Company had adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors.

CORPORATE GOVERNANCE

The Company has complied with all code provisions as set out in the “Corporate Governance Code” (the “**CG Code**”) contained in Appendix 15 of the GEM Listing Rules, except for the deviation from CG Code Provision A.2.1 as explained below, throughout the six months ended 30 June 2019.

The CG Code Provision A.2.1 stipulates that the roles of the chairman and chief executive should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Mr. Qi Jinsong was both the chairman and chief executive officer of the Company who was responsible for managing the Board and Group business. The Board considered that, with the present Board structure and scope of business of the Group, vesting the roles of the chairman and chief executive officer in the same person enabled more effective and efficient planning and implementation of business plans and the Board believed that the balance of power and authority has been adequately ensured. However, the Board would continue to review regularly the effectiveness of the Group’s corporate governance structure to assess whether the separation of the positions of the chairman and chief executive officer would be necessary.

On behalf of the Board
Shenghua Lande Scitech Limited*
Qi Jinsong
Chairman and Chief Executive Officer

Huzhou City, the PRC, 13 August 2019

* *For identification purposes only*