



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



2020

Third Quarterly Report

- SHOW BUSINESS
- NETWORK
- MUSIC
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* 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

- Achieved a revenue of approximately RMB166,766,000 for the nine months ended 30 September 2020, representing an approximately 3.11% decrease as compared with the revenue for the corresponding period in 2019.
- Incurred a net loss of approximately RMB7,090,000 for the nine months ended 30 September 2020, compared to the net loss of approximately RMB6,581,000 for the corresponding period in 2019.
- The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2020.

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 2020.

2020 THIRD QUARTERLY RESULTS

For the nine months ended 30 September 2020, the Group recorded an unaudited revenue of approximately RMB166,766,000 (2019: RMB172,125,000), representing a decrease of approximately RMB5,359,000, or approximately 3.11%, as compared with the revenue of the same period in 2019. For the three months ended 30 September 2020, the Group recorded an unaudited revenue of approximately RMB45,892,000 (2019: RMB65,533,000), representing a decrease of approximately RMB19,641,000 or approximately 29.97%, as compared with the revenue of the same period in 2019.

For the nine months ended 30 September 2020, the Group recorded an unaudited net loss attributable to owners of the Company of approximately RMB7,090,000 (2019: RMB6,581,000). For the three months ended 30 September 2020, the Group recorded an unaudited net profit attributable to owners of the Company of approximately RMB3,847,000 (2019: loss of RMB3,412,000).

The unaudited results of the Group for the nine and three months ended 30 September 2020, together with the unaudited comparative figures for the corresponding periods in 2019, are as follows:

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Revenue	2	166,766	172,125	45,892	65,533
Cost of sales		(147,120)	(153,917)	(36,585)	(60,850)
Gross profit		19,646	18,208	9,307	4,683
Other operating income, net gains or losses		1,755	3,138	270	353
Distribution and selling expenses		(6,605)	(8,247)	(2,454)	(2,485)
General and administrative expenses		(16,725)	(16,381)	(1,195)	(3,982)
Research and development expenditure		(5,060)	(2,849)	(2,130)	(1,870)
Share of results of an associate		68	–	57	–
Finance costs		(192)	(446)	(24)	(139)
(Loss) profit before tax		(7,113)	(6,577)	3,831	(3,440)
Income tax expenses	3	(93)	(46)	(26)	–
(Loss) profit for the period		(7,206)	(6,623)	3,805	(3,440)
(Loss) profit for the period attributable to:					
Owners of the Company		(7,090)	(6,581)	3,847	(3,412)
Non-controlling interests		(116)	(42)	(42)	(28)
		(7,206)	(6,623)	3,805	(3,440)
(Loss) earnings per share – Basic and diluted (RMB)	4	(1.40) cents	(1.30) cents	0.76 cents	(0.67) 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 were 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. REVENUE

	Nine months ended 30 September		Three months ended 30 September	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Trading of hardware and computer software	92,539	90,117	27,588	38,273
Provision of smart city solutions	15,401	24,474	13,309	6,708
Provision of e-commerce supply chain services	56,644	52,859	4,449	19,220
Provision of telecommunication value-added services	2,182	4,675	546	1,332
	166,766	172,125	45,892	65,533

3. INCOME TAX EXPENSES

	Nine months ended 30 September 2020		Three months ended 30 September 2020	
	RMB'000	2019 RMB'000	RMB'000	2019 RMB'000
PRC Enterprise Income Tax ("EIT")	93	46	26	–

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% (2019: 25%). During the relevant periods, one of the subsidiaries of the Company was subject to EIT at a rate of 15% (2019: 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 (2019: Nil) as there were no assessable profits derived by the Group for the relevant periods (2019: 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 the 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 (2019: Nil) as it did not have any material assessable profits subject to Hong Kong Profits Tax for the relevant periods (2019: Nil).

4. (LOSS) EARNINGS PER SHARE

The calculation of the basic loss per share for the nine months ended 30 September 2020 is based on the net loss attributable to owners of the Company for the nine months ended 30 September 2020 of approximately RMB7,090,000 (2019: RMB6,581,000) and approximately 506,546,000 shares (2019: 506,546,000 shares) in issue during the period.

The calculation of the basic earnings per share for the three months ended 30 September 2020 is based on the net profit attributable to owners of the Company for the three months ended 30 September 2020 of approximately RM3,847,000 (2019: loss of RMB3,412,000) and approximately 506,546,000 shares (2019: 506,546,000 shares) in issue during the period.

Diluted (loss) earnings per share were the same as basic (loss) earnings per share for the nine months and three months ended 30 September 2020 and 2019 as there were no potential ordinary shares 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 2020 and 2019:

	Nine months ended 30 September	
	2020 RMB'000	2019 RMB'000
Accumulated losses		
At 1 January	(57,131)	(60,628)
Net loss	(10,937)	(3,169)
	(68,068)	(63,797)
At 30 June	(68,068)	(63,797)
Net profit (loss)	3,847	(3,412)
	(64,221)	(67,209)
At 30 September	(64,221)	(67,209)

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2020 (2019: Nil).

REVIEW OF THE THIRD QUARTER

1. Financial review

(i) Overview

The Group is principally engaged in (i) the trading of hardware and computer software; (ii) the provision of smart city solutions; (iii) the provision of e-commerce supply chain services; and (iv) the provision of telecommunication value-added services.

There is no particular seasonal fluctuation in the Group's revenue except that revenue from various business segments in the first quarter are in general lower than in other quarters. This is primarily due to the 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 progress of implementation 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 margins. Through the continuous optimisation of product structure and sales strategies and improvement of service levels, the Group is working hard to increase the gross profit margins of these trading businesses. On the other hand, the Group's provision of software development, technical support and various value-added services normally enjoy relatively higher gross profit margins, which vary among different projects and/or products.

(ii) Revenue

For the nine months and three months ended 30 September 2020, (i) the trading of hardware and computer software business generated revenue of approximately RMB92,539,000 (2019: RMB90,117,000) and RMB27,588,000 (2019: RMB38,273,000), respectively, representing approximately 2.69% increase and 27.92% decrease, respectively, when compared to the same periods of last year. The Group started to withdraw from the agency business of a certain brand in the third quarter, so the revenue in the third quarter fell sharply year-on-year. However, due to the acquisition and completion of large orders from individual major customers in the first half of the year, the business revenue grew significantly in the first half of the year, and, therefore, the cumulative fluctuations in the first three quarters were small; (ii) the provision of smart city solutions business generated revenue of approximately RMB15,401,000 (2019: RMB24,474,000) and RMB13,309,000 (2019: RMB6,708,000), respectively, representing approximately 37.07% decrease and 98.40% increase, respectively, when compared to the same periods of last year. The business is currently focused on construction projects. Due to the differences in the contract amounts for the projects under construction and progress of the projects in each reporting period, there would be certain fluctuation in the amount of revenue recognised in the respective reporting periods. The Group is actively expanding operation services to enhance the stable income capability of the business. Also, during the relevant periods, due to the impact of the “Novel Pneumonia Coronavirus” epidemic, the progress of the implementation of various projects of this business was slower than expected, and there were fewer projects under construction in the first half of the year compared with the same period of last year. Therefore, the revenue of this business dropped sharply year-on-year for the first half of the year. However, with the normal operations of the Group and its customers, especially the smooth progress of some key projects, since the second quarter, the Group has successfully won several major customer orders and completed the signing of contracts, and has been speeding up the on-site development and implementation of the projects (including a single large project order that won the bid

in the second quarter). So the business revenue in the third quarter increased significantly year-on-year, laying the foundation for better business revenue for the whole year; (iii) the provision of e-commerce supply chain services business generated revenue of approximately RMB56,644,000 (2019: RMB52,859,000) and RMB4,449,000 (2019: RMB19,220,000), respectively, representing approximately 7.16% increase and 76.85% decrease, respectively, when compared to the same periods of last year. The business's revenue in the first half of the year increased significantly year-on-year because the Group has improved the supply chain capabilities of the business compared to the same period of last year, and improved its market share in major customers. However, due to the business adjustments of the major customers in the third quarter, the business revenue declined significantly, and it is expected that the impact will not be eliminated in the short term; and (iv) the provision of telecommunication value-added services business generated revenue of approximately RMB2,182,000 (2019: RMB4,675,000) and RMB546,000 (2019: RMB1,332,000), respectively, representing approximately 53.33% and 59.01% decrease, respectively, when compared to the same periods of last year. The business was constrained by the industry recession, which led to the continuous 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.

For the nine months ended 30 September 2020, the unaudited revenue of the Group was approximately RMB166,766,000 (2019: RMB172,125,000), representing a decrease of approximately RMB5,359,000, or approximately 3.11%, as compared with that of the same period in 2019. For the three months ended 30 September 2020, the unaudited revenue of the Group is approximately RMB45,892,000 (2019: RMB65,533,000), representing a decrease of approximately RMB19,641,000, or approximately 29.97%, as compared with that of the same period in 2019.

(iii) Gross profit margin

For the nine months and three months ended 30 September 2020, (i) the gross profit margin of the trading of hardware and computer software business was approximately 8.54% (2019: 4.98%) and 8.66% (2019: 3.95%), respectively. Compared with the same periods of last year, the gross profit margin of this business has increased significantly. The Group strived to continuously 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. At the same time (especially in the second and third quarters), the Group focused on developing direct customers in this business to increase the overall business gross profit margin, and the effect was apparent; (ii) the gross profit margin of the provision of smart city solutions business was approximately 41.73% (2019: 22.36%) and 44.17% (2019: 9.60%), respectively. The gross profit margin of this business was affected by the gross profit margins of related projects carried out during the respective reporting periods, and there would be certain fluctuations. In addition, this business has increased the research and development investment in the period, which has increased its business gross profit margin to a certain extent (with an increase in the labour cost allocated to research and development

expenses, there was a reduction in the project cost allocated); (iii) the gross profit margin of the provision of e-commerce supply chain services business was approximately 5.53% (2019: 7.54%) and 11.10% (2019: 6.02%), respectively. The gross profit margin of this business was greatly affected by customers. Due to the major internal adjustments made by the major customers of this business, their control of the cross-border e-commerce supply chain has been further strengthened. As a result, the Group reduced the business gross profit margin to maintain the market share of this business. However, in the third quarter, the Group appropriately adjusted its product structure so as to increase the business gross profit margin; and (iv) the gross profit margin of the provision of telecommunication value-added services business was approximately 99.91% (2019: 91.19%) and 100.00% (2019: 102.93%), respectively. Compared with the same periods of last year, the gross profit margin of this business remained at a relatively high level. The abnormality of the gross profit margin of the business for the three months ended 30 September 2019 was mainly due to the write-back of the promotion costs over-provided in previous periods during the period. As the base number of the costs of the business was relatively small, the gross profit margin became abnormal after the adjustment. Due to restrictions by the influences of the industry conditions and policy factors, the revenue of this business has continued to decline. After assessment, the Group had gradually reduced the cost investment of this business in recent years, resulting in an increase in the gross profit margin.

The unaudited gross profit margin of the Group for the nine months and three months ended 30 September 2020 was approximately 11.78% (2019: 10.58%) and 20.28% (2019: 7.15%), respectively. The Group's overall gross profit margin for the period increased slightly compared to the same period of last year, mainly due to the Group's efforts to increase the gross profit margin of the trading of hardware and computer software business (the business accounted for the largest revenue contribution) and the increase in the research and development investment of the provision of smart city solutions business. In the third quarter, the Group's consolidated gross profit margin increased significantly compared to the same period of last year, mainly due to the substantial increase in the revenue from the provision of smart city solutions business with high gross profit margin in the quarter (the business's revenue contribution ratio increased significantly), and the significant decline of the revenue of the trading of hardware and computer software business and provision of e-commerce supply chain services business with relatively low gross profit margins, which resulted in the significant increase in the overall gross profit margin. The Group is working hard to adjust its business structure and product structure. It will consider business expansion while taking into account the business gross profit margin to maximise the overall benefits of the Group.

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

For the nine months and three months ended 30 September 2020, (i) the trading of hardware and computer software business reported segment profit of approximately RMB4,283,000 (2019: RMB439,000) and RMB1,415,000 (2019: RMB138,000), respectively. The business segment continued to adjust the sales strategy and sales structure of the business during the relevant periods to increase sales of brands and products with higher gross profit margins. In the current period (especially in the second and third quarters), the Group obtained and completed the large orders of individual major customers and focused on developing direct customers to increase the overall business gross profit margin. As a result, the segment profit of the business increased significantly; (ii) the provision of smart city solutions business reported segment loss of approximately RMB6,321,000 (2019: RMB3,055,000) and profit of approximately RMB5,299,000 (2019: loss of RMB2,144,000), respectively. During the relevant periods, due to the impact of the "Novel

Pneumonia Coronavirus” epidemic, the progress of the implementation of various projects of this business segment was slower than expected, and there were fewer projects under construction in the first half of the year compared with the same period of last year. Therefore, the revenue of this business dropped sharply year-on-year, and the main cost of this business was fixed labour costs, which led to a substantial increase in the segment loss during the period. However, following the normal operations of the Group and customers, especially the smooth progress of some key projects since the second quarter, the revenue of the business for the third quarter has increased significantly, the profitability of the segment has improved significantly and quarterly profits have been achieved; (iii) the provision of e-commerce supply chain services business reported segment profit of approximately RMB486,000 (2019: RMB318,000) and loss of approximately RMB516,000 (2019: RMB47,000), respectively. Although the gross profit margin of this business has dropped significantly, focus was made on controlling the investment in various expenses such as marketing expenses and, therefore, the segment profit of the period has little fluctuation. As the revenue of this business segment for the third quarter has dropped significantly, so the segment loss for the third quarter increased significantly; and (iv) the provision of telecommunication value-added services business reported segment loss of approximately RMB348,000 (2019: profit of RMB331,000) and RMB134,000 (2019: profit of RMB24,000), respectively. Although the Group has focused on strengthening management and continued to make efforts to reduce operating costs and expenses (including reduction of lease costs and labour outsourcing costs of operation centres, etc.), the revenue of this business segment continued to drop significantly, and, therefore, the segment was at a loss during the period. For the nine months and three months ended 30 September 2020, the net unallocated expenses of the Group were approximately RMB5,213,000 (2019: RMB4,610,000) and RMB2,233,000 (2019: RMB1,411,000), respectively. The net unallocated expenses of the period increased slightly compared with the same period of last year, mainly due to exchange rate fluctuations. There was an exchange loss of approximately RMB316,000 during the period, while there was an exchange gain of approximately RMB257,000 in the same period of last year. Especially in the third quarter, the exchange fluctuations were relatively large and the impact was greater.

As a result of the cumulative effect of the principal factors described above, for the nine months ended 30 September 2020, the Group reported an unaudited net loss attributable to owners of the Company and loss per share of approximately RMB7,090,000 (2019: RMB6,581,000) and RMB1.40 cents (2019: RMB1.30 cents), respectively. For the three months ended 30 September 2020, the Group reported an unaudited net profit attributable to owners of the Company and earnings per share of approximately RMB3,847,000 (2019: loss of RMB3,412,000) and RMB0.76 cents (2019: loss of RMB0.67 cents), respectively.

Though the financial performance of the Group for the nine months ended 30 September 2020 was not favourable, the Board believes that there will be no material adverse impact on the Group's business operations and the Group maintains a stable financial position.

(v) *Bank balances and cash and financial assets at fair value through profit or loss*

As at 30 September 2020, the Group's unaudited total bank balances and cash and financial assets at fair value through profit or loss (which represented the Wealth Management Products as defined and detailed below) amounted to approximately RMB37,984,000 (30 June 2020: RMB40,650,000). 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 September 2020 were approximately 31.02% (30 June 2020: 30.63%) and 37.37% (30 June 2020: 41.55%), respectively.

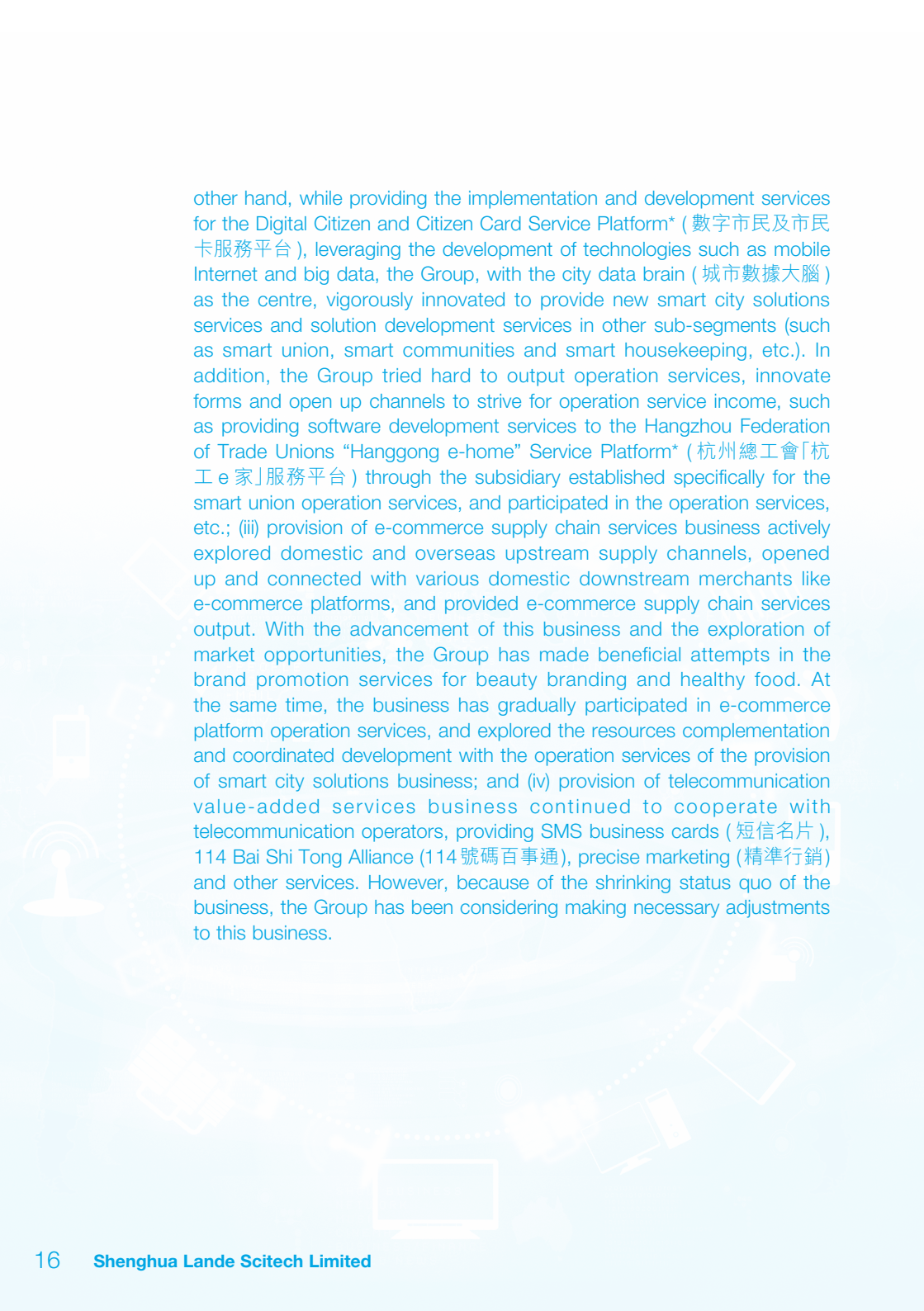
2. Business and operation review

(i) *Impact of “Novel Pneumonia Coronavirus” epidemic*

In early 2020, the epidemic of the “Novel Pneumonia Coronavirus” had a great impact on the economic development of the society. In response to this, the Group faced the epidemic, while cooperating with the government to fight the epidemic, actively took responding measures to avoid the economic loss of the Group, studied and analysed the influences of the epidemic on the Group’s business and grasped the development opportunities contained in it. On the one hand, affected by the epidemic, the Group promoted employees’ working from home and over the network according to the advantages and characteristics of the industry in which it worked, maintained close contact with the suppliers and customers, and tried to maintain the normal development of business activities. In addition, according to the experience of the Group in the past years, the Group’s business would have relatively little activity before and after the Chinese New Year holidays. Therefore, although issues like the delay in resuming work caused by the outbreak of the epidemic had some impacts (such as decreases in efficiencies in goods delivery, project development, etc.) on the Group’s main business operations, they were basically controllable. On the other hand, information technology had played a huge role in the fight against the epidemic, whether it was “digital empowerment (數字賦能)” to help government management to fight the epidemic, or “convenient services (便民服務)” to meet the needs of ordinary citizens. Relevant businesses of the Group have also played a role in this, for example, the provision of smart city solutions business has actively developed new Digital Citizen* (數字市民) applications and provided the new solutions to individual city customers to help the government fighting the epidemic. At present, although the epidemic has not completely ended, the domestic epidemic has been basically controlled and the economic activities have basically resumed. The operating activities of the Group have gradually returned to normal since the second quarter. The Group actively and earnestly responded to the impact of the epidemic on various businesses and actively explored market demand for related products and services. Especially, under the stimulus of the epidemic, the Group will grasp the market opportunities provided by the state’s support on the development of “new infrastructure (新基建)” for the development of its related businesses.

(ii) Business and product development

During the reporting period, the Group's (i) trading of hardware and computer software business continued to adjust its sales strategy and sales structure on the premise of effective control of business risks, gradually reducing the sales of brands and products with high inventory and high receivables and increasing the sales of brands and products with higher gross profit margin. In the period, in consideration of reducing business risks, the Group increased the business revenue by securing and completing large orders from individual large customers. In the period, the business also focused on developing direct customers to increase the overall business gross profit margin, ensuring the overall stable development of the business; (ii) provision of smart city solutions business actively grasped the development opportunities of domestic smart cities construction and strived to promote the overall improvement and enhancement of the Group's business. On the one hand, the Group maintained good cooperative relationship with the existing customers, provided continuous software system development services and value-added services for the Digital Citizen and Citizen Card Service Platform* (數字市民及市民卡服務平台) in local cities, and provided pre-consultation and program design services to new city customers in and outside Zhejiang Province, which laid a good foundation for obtaining new project orders. Up to now, this business has successfully won the bid for the key project in a city outside Zhejiang Province in the second quarter, and again successfully won the bid for the key projects in two cities in Zhejiang Province in the third quarter. The number of project orders has increased significantly when compared with the same period of last year. On the



other hand, while providing the implementation and development services for the Digital Citizen and Citizen Card Service Platform* (數字市民及市民卡服務平台), leveraging the development of technologies such as mobile Internet and big data, the Group, with the city data brain (城市數據大腦) as the centre, vigorously innovated to provide new smart city solutions services and solution development services in other sub-segments (such as smart union, smart communities and smart housekeeping, etc.). In addition, the Group tried hard to output operation services, innovate forms and open up channels to strive for operation service income, such as providing software development services to the Hangzhou Federation of Trade Unions “Hanggong e-home” Service Platform* (杭州總工會「杭工e家」服務平台) through the subsidiary established specifically for the smart union operation services, and participated in the operation services, etc.; (iii) provision of e-commerce supply chain services business actively explored domestic and overseas upstream supply channels, opened up and connected with various domestic downstream merchants like e-commerce platforms, and provided e-commerce supply chain services output. With the advancement of this business and the exploration of market opportunities, the Group has made beneficial attempts in the brand promotion services for beauty branding and healthy food. At the same time, the business has gradually participated in e-commerce platform operation services, and explored the resources complementation and coordinated development with the operation services of the provision of smart city solutions business; and (iv) provision of telecommunication value-added services business continued to cooperate with telecommunication operators, providing 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 other services. However, because of the shrinking status quo of the business, the Group has been considering making necessary adjustments to this business.

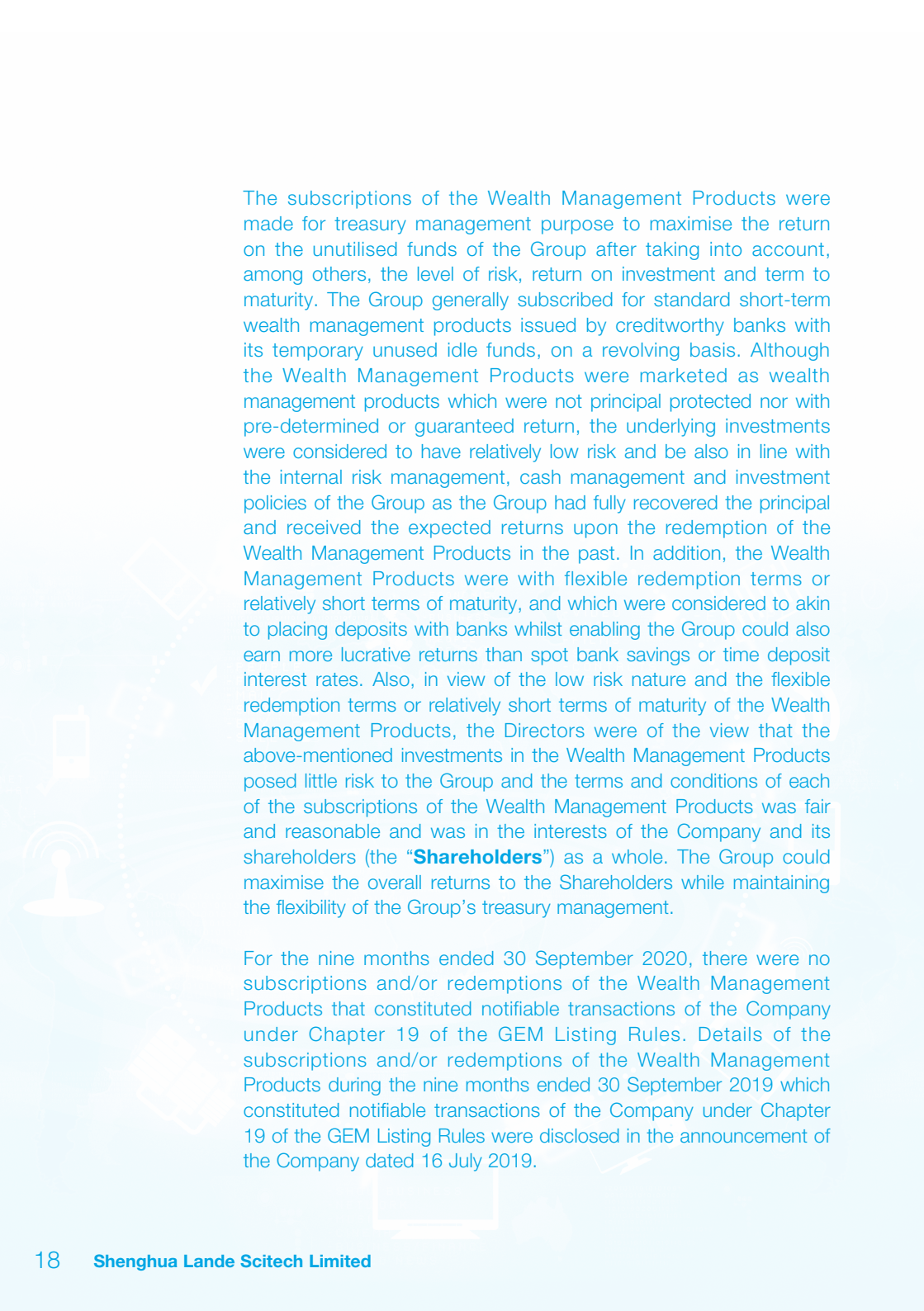
(iii) Investment and cooperation

(a) Investment in an associate

As at 30 September 2020, the Group had an investment in an associate, which represented its 33.00% interest in the registered capital of Guifutong Network Technology Co., Ltd.* (貴服通網絡科技責任有限公司) (“**Guifutong**”), with a carrying value of approximately RMB6,702,000 (30 June 2020: RMB6,645,000). The Group expected to export related solution services in Guizhou Province through Guifutong and tried to commence operation services through the construction of the Guifutong Service Platform* (貴服通服務平台), enhancing its development in mobile Internet services. Guifutong is still in the initial stage and has not started to make a significant contribution to the performance of the Group.

(b) 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 issued by Bank of China Limited (the “**BOC Wealth Management Products**”) and Bank of Hangzhou Co., Ltd.* (the “**BOH Wealth Management Products**”) (collectively referred to as the “**Wealth Management Products**”). The Wealth Management Products had no fixed maturity periods and were not principal protected nor with pre-determined or guaranteed returns. The underlying investments of the BOC 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). The expected annualised rate of return of the BOC Wealth Management Products was around 2.40% to 2.80% (2019: 2.00% to 3.85%), which was relatively higher than the comparable market bank deposit interest rates. The underlying investments of the BOH Wealth Management Products were mainly fixed income assets, including but not limited to various bonds, deposits, money market financial instruments and other highly liquid assets, bond funds, pledged and buyout repo, and other debt assets that met regulatory requirements. The expected annualised rate of return of the BOH Wealth Management Products was around 2.90% to 3.20% (2019: not applicable), 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 idle 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 fully 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 relatively short terms 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 relatively short terms of maturity of the Wealth Management Products, the Directors were of the view that the above-mentioned investments in 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.

For the nine months ended 30 September 2020, there were no subscriptions and/or redemptions of the Wealth Management Products that constituted notifiable transactions of the Company under Chapter 19 of the GEM Listing Rules. Details of the subscriptions and/or redemptions of the Wealth Management Products during the nine months ended 30 September 2019 which constituted notifiable transactions of the Company under Chapter 19 of the GEM Listing Rules were disclosed in the announcement of the Company dated 16 July 2019.

As at 30 September 2020, 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 RMB20,500,000 (30 June 2020: RMB17,000,000). For the nine months and three months ended 30 September 2020, the gain realised by the Group from the Wealth Management Products amounted to approximately RMB359,000 (2019: RMB390,000) and RMB106,000 (2019: RMB28,000), respectively.

(c) Other business investment and cooperation

During the reporting period, the Group has constantly been seeking suitable investment opportunities or business cooperation opportunities, including opportunities for the expansion of existing business and other potential new business opportunities suitable for the development of the Group, but so far no specific progress has been made.

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

3. Future prospects

(i) *Order backlog/sales contracts*

During the reporting period, the Group's trading of hardware and computer software business maintained close cooperative relationship with well-known hardware and software vendors in the industry, launched sales of computer storage servers and other products and services, sought to increase the proportion of system integration service contract revenue, and continued to gradually improve the business income structure and profitability. The construction service contracts of the Group's provision of smart city solutions business are being implemented in many places in and outside Zhejiang Province as planned. Although the progress has slowed down in the first and second quarters as affected by the "Novel Pneumonia Coronavirus" epidemic, following the smooth progress of certain key projects of the Group, in addition to the successful bid for the key project in a city outside Zhejiang Province in the second quarter, this business successfully won the bid for the key projects in two cities in Zhejiang Province in the third quarter. The Group had established good cooperative relationships with local city customers and was exploring customer needs and providing smart city solution products and services such as the Digital Citizen and Citizen Card Service Platform* (數字市民及市民卡服務平台), etc.. Business orders and contracts in many other cities in the country were explored, which laid a foundation for the subsequent continuous generation of new contracts and orders. So far, the number of project orders for this business has increased significantly over the same period of last year. After recent years' exploration, the Group's e-commerce supply chain services business has established cooperative relationships with many well-known domestic e-commerce platforms, domestic and foreign brand manufacturers and merchants. However, due to the major internal adjustments of the major customers of the business, the order and revenue of the business was affected to a certain extent and it needs to further actively explore upstream and downstream channel cooperation, seek more business cooperation orders, and even make appropriate business adjustments. The cooperations between the Group's provision of telecommunication value-added services business and telecommunication operators are within the validity period of the contracts. At the same time, they have also maintained access and implementation in many places. However, due to the influences of market demand and policy restrictions, the business has not been able to open up the transition situation, and it is necessary to consider giving necessary adjustments.

(ii) Prospects of new business and new products

The Group continues to promote the development in mobile Internet services, combines existing business and technological advantages, and continues to seek new business opportunities, with a view to providing technology development capabilities and business innovation capabilities possessed by the provision of smart city solutions business, with the city data brain (城市數據大腦) as the centre, to increase the research and development of new solutions and participate in business areas with broader market space, and collaborate with other businesses, integrate resources, and carry out innovative development of new business or new products, striving to build a business ecosystem with sustainable development capabilities.

On the one hand, the Group will grasp the technical advantages and customer resources in various cities accumulated in the provision of smart city solutions business, strengthen the innovation of solutions and applications with the ecological concepts of “multi-subject coordination, multi-scenario application” and “sharing, coordination and integration”, provide “digital empowerment (數字賦能)” to customers, and, through the continuous improvement of the Digital Citizen and Citizen Card Service Platform* (數字市民及市民卡服務平台), expand application scenarios and service functions, such as further strengthening the development of applications like smart union, smart community and smart housekeeping services. In particular, this business summarises the practical experience of applying digital technology to combat the epidemic together with some city customers during the “Novel Pneumonia Coronavirus” epidemic. Leveraging the opportunities after the epidemic that state and governments at all levels would deeply reconsider the social governance and city management service capabilities and efficiency, the business would promote better solutions involving the provision of complete digital information services with “information release, information collection, traceability and behaviour management” to city customers in every city, which will help to improve and enhance their social governance and city management, drive the development of new customers and exploration of old customers for this business, and grasp the opportunity of the booming market demand for “new infrastructure (新基建)” smart city construction stimulated by the epidemic, develop new application solutions based on city data brain (城市數據大腦), and participate in providing customers with city data brain (城市數據大腦) planning and consulting services and the development and implementation services for city data brain (城市數據大腦) related “cerebellum (小腦)” system application.

On the other hand, the Group will continue to cultivate operation services in order to provide a variety of convenient services and value-added services to a broad customer base of the Digital Citizen and Citizen Card Service Platform* (數字市民及市民卡服務平台) to maximise business value. Although the expectation has not been achieved so far, the Group will continue to promote the output of operation services in smart labour unions and other aspects. While providing system solution development services, it will enhance its value-added service capabilities and provide citizen customers with personalised value-added services and products and encourage the provision of e-commerce supply chain services business to provide operation services for e-commerce platforms, further accumulate resources of upstream and downstream channels to grasp product and service capabilities with sufficient profit potential, and actively promote the coordinated development and resources complementation with the operation services of the provision of smart city solutions business.

Further, the Group will actively promote the transformation and development of other business sectors, and develop or introduce new businesses and new products, enhancing the Group's construction of business ecosystem. Firstly, guiding the trading of hardware and computer software business to continue to adjust sales strategies and sales structure, strengthen the expansion of system integration services, seek supporting service opportunities with the help of the provision of smart city solutions business, and encourage beneficial exploration in other product sales services. Secondly, encouraging the provision of e-commerce supply chain services business to strengthen service capabilities. In addition to expanding supply chain channels and providing e-commerce platform operation services, focusing on brand marketing and other capabilities such as brand marketing of beauty products and healthy food, striving for an important breakthrough. Thirdly, reviewing the provision of the telecommunication value-added services business and making necessary adjustments.

In order to achieve the strategic development goals, the Group has actively and steadily advanced related work in accordance with the above plan. The Board believes that the Group would seize the opportunity and, through adopting effective measures and with the coordinated development of each business segment, build a business ecosystem with the Group's characteristics and full coverage from technology to services, from products to platforms, from offline to online, and from B end to C end in the future. The Group's continued profitability in the mobile Internet service industry will be created which will bring more value to the Shareholders.

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

Save as disclosed below, as at 30 September 2020, none of the Directors, supervisors or chief executives of the Company had an 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 Model Code for Securities Transactions by Directors 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 nine months ended 30 September 2020, none of the Directors, supervisors, or chief executives of the Company was granted options to subscribe for the shares of the Company (2019: Nil). As at 30 September 2020, 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 (2019: 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 expired on 20 April 2012. No options had been granted by the Company under the Share Option Scheme.

INTEREST 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 September 2020, 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 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 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	168,846,930 domestic shares (Note 1) and 93,130,000 H shares (Note 2)	51.72%
Rise Sea Limited (“Rise Sea”)	Beneficial owner	93,130,000 H shares (Note 2)	18.39%
Deqing Huisheng Investment Company Limited* (德清匯升投資有限公司) (“Deqing Huisheng”)	Interest of a controlled corporation	168,846,930 domestic shares (Note 1) and 93,130,000 H shares (Note 2)	51.72%
Mr. Xia Shilin	Interest of a controlled corporation	168,846,930 domestic shares (Note 1) and 93,130,000 H shares (Note 2)	51.72%

Name	Capacity and nature of interest	Number of shares held	Percentage of beneficial interests in the Company's share capital
Ms. Qian Xiaomei	Interest of spouse	168,846,930 domestic shares and 93,130,000 H shares <i>(Note 3)</i>	51.72%
Mr. Zhang Xuguang	Beneficial owner	20,320,000 domestic shares and 20,320,000 H shares	8.02%
Ms. He Yan	Interest of spouse	20,320,000 domestic shares and 20,320,000 H shares <i>(Note 4)</i>	8.02%
Mr. Wu Menggen	Beneficial owner	21,000,000 domestic shares and 12,800,000 H shares	6.67%
Ms. Dai Jihong	Interest of spouse	21,000,000 domestic shares and 12,800,000 H shares <i>(Note 5)</i>	6.67%

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. Fong For	Beneficial owner	15,285,000 H shares	3.02%

Notes:

- (1) Zhejiang Shenghua, a limited company established in the PRC, is directly interested in these 168,846,930 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 168,846,930 domestic shares.
- (2) These 93,130,000 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 93,130,000 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. He Yan is the spouse of Mr. Zhang Xuguang and therefore she and Mr. Zhang Xuguang are deemed to be interested in each other's shares under the SFO.
- (5) Ms. Dai Jihong is the spouse of Mr. Wu Menggen and therefore she and Mr. Wu Menggen are deemed to be interested in each other's 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 third quarterly results and third quarterly report of the Group for the nine months ended 30 September 2020 have not been audited or reviewed by the Company's auditor, but have 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 2020 (2019: Nil).

By order of the Board
Shenghua Lande Scitech Limited*
Qi Jinsong
Chairman

Huzhou City, the PRC, 13 November 2020

* For identification purposes only