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

First Quarterly Report
2021

* 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 (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 from continuing operations of approximately RMB37,358,000 for the three months ended 31 March 2021, representing an approximately 27.19% decrease as compared with the revenue from continuing operations for the same period of the year 2020.

- Incurred a net loss attributable to owners of the Company from continuing operations of approximately RMB8,288,000 for the three months ended 31 March 2021, comparing to a net loss attributable to owners of the Company from continuing operations of approximately RMB9,278,000 (restated) incurred for the same period of the year 2020.

- Had not recorded any results attributable to owners of the Company from discontinued operation for the three months ended 31 March 2021, comparing to a net loss attributable to owners of the Company from discontinued operation of approximately RMB351,000 (restated) incurred for the same period of the year 2020.

- Incurred a net loss attributable to owners of the Company from continuing and discontinued operations of approximately RMB8,288,000 for the three months ended 31 March 2021, comparing to a net loss attributable to owners of the Company from continuing and discontinued operations of approximately RMB9,629,000 incurred for the same period of the year 2020.

- The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2021.

The board (the "**Board**") of Directors of the Company is pleased to present the first quarterly report of the Company and its subsidiaries (together the "**Group**") for the three months ended 31 March 2021.

2021 FIRST QUARTERLY RESULTS

For the three months ended 31 March 2021, the Group recorded an unaudited revenue from continuing operations of approximately RMB37,358,000 (2020: RMB51,312,000 (restated)), representing a decrease of approximately RMB13,954,000, or approximately 27.19%, as compared with the unaudited revenue from continuing operations for the same period of the year 2020.

For the three months ended 31 March 2021, the Group recorded an unaudited net loss attributable to owners of the Company from continuing operations of approximately RMB8,288,000 (2020: RMB9,278,000 (restated)).

For the three months ended 31 March 2021, the Group had not recorded any unaudited results attributable to owners of the Company from discontinued operation (2020: loss of RMB351,000 (restated)).

For the three months ended 31 March 2021, the Group recorded an unaudited net loss attributable to owners of the Company from continuing and discontinued operations of approximately RMB8,288,000 (2020: RMB9,629,000).

The unaudited results of the Group for the three months ended 31 March 2021 together with the unaudited comparative figures for the corresponding period in 2020 are as follows:

		For the three months ended 31 March	
		2021	2020
	Notes	***RMB'000***	*RMB'000*
			(Restated)
Continuing operations			
Revenue	*2*	**37,358**	51,312
Cost of sales		**(34,508)**	(48,699)
Gross profit		**2,850**	2,613
Other operating income, net gains or losses		**2,629**	795
Distribution and selling expenses		**(853)**	(1,656)
General and administrative expenses		**(11,576)**	(9,847)
Research and development expenditure		**(1,462)**	(1,081)
Share of results of an associate		**–**	5
Finance costs		**–**	(107)
Loss before tax		**(8,412)**	(9,278)
Income tax	*3*	**(30)**	–
Loss for the period from continuing operations		**(8,442)**	(9,278)
Discontinued operation	*4*		
Loss for the period from discontinued operation		**–**	(413)
Loss for the period		**(8,442)**	(9,691)

	Notes	For the three months ended 31 March 2021 *RMB'000*	 2020 *RMB'000* (Restated)
Loss for the period attributable to owners of the Company			
– from continuing operations		**(8,288)**	(9,278)
– from discontinued operation		**–**	(351)
Loss for the period attributable to owners of the Company		**(8,288)**	(9,629)
Loss for the period attributable to non-controlling interests			
– from continuing operations		**(154)**	–
– from discontinued operation		**–**	(62)
Loss for the period attributable to non-controlling interests		**(154)**	(62)
		(8,442)	(9,691)
Loss per share	*5*		
From continuing and discontinued operations			
Basic and diluted *(RMB)*		**(1.64) cents**	(1.90) cents
From continuing operations			
Basic and diluted *(RMB)*		**(1.64) cents**	(1.83) 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.

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

Continuing operations

	For the three months ended 31 March	
	2021	2020
	RMB'000	*RMB'000*
		(Restated)
Trading of hardware and computer software	**25,391**	36,005
Provision of smart city solutions	**2,873**	624
Provision of e-commerce supply chain services	**9,094**	14,683
	37,358	51,312

3. INCOME TAX

Continuing operations

	For the three months ended 31 March	
	2021	2020
	RMB'000	*RMB'000*
		(Restated)
PRC Enterprises Income Tax (the "**EIT**") expenses	**(30)**	–

Under the Law of the PRC on EIT (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC enterprises for the period was 25% (2020: 25%). During the period, one of the subsidiaries of the Company was subject to EIT at a rate of 15% (2020: 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 period (2020: Nil) as there were no assessable profits derived by the Group for the relevant period (2020: Nil). The EIT expenses for the period represented income tax expenses 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 (2020: Nil).

During the period, no provision for Hong Kong Profits Tax has been made for the subsidiary of the Company established in Hong Kong (2020: Nil) as it did not have any assessable profits subject to Hong Kong Profits Tax for the period (2020: Nil).

4. DISCONTINUED OPERATION

On 9 December 2020, the Company entered into a rights transfer agreement (the "**Rights Transfer Agreement**") to dispose of its rights relating to 85% equity interests in Zhejiang Lan Chuang Information Co., Ltd.* (浙江蘭創通信有限公司) ("**Lan Chuang**"), one of its subsidiaries, together with all benefits and title therein, at a consideration of RMB7,200,000 to Mr. Zhang Jing (張璟). The Rights Transfer Agreement was completed on 14 December 2020 and the Group discontinued its provision of telecommunication valued-added services business since then. Details of the Rights Transfer Agreement and the disposal of the rights relating to 85% equity interests in Lan Chuang were set out in the announcement of the Company dated 9 December 2020 and annual report of the Company for the year 2020 dated 19 March 2021.

The results for the three months ended 31 March 2021 from discontinued operation were set out below.

	For the three months ended 31 March	
	2021	2020
	RMB'000	*RMB'000*
		(Restated)
Loss from discontinued operation for the period	**–**	(413)

5. LOSS PER SHARE

Continuing and discontinued operations

The calculations of the basic loss per share from continuing and discontinued operations are based on loss attributable to owners of the Company for the period of approximately RMB8,288,000 (2020: RMB9,629,000) and the weighted average number of approximately 506,546,000 (2020: 506,546,000) shares in issue during the three months ended 31 March 2021.

Diluted loss per share was the same as basic loss per share for the three months ended 31 March 2021 and 2020 as there were no potential ordinary shares existed during both periods.

Continuing operations

The calculations of the basic and diluted loss per share from continuing operations are based on the following data:

Loss figures are calculated as follows:

	For the three months ended 31 March	
	2021	2020
	RMB'000	*RMB'000*
		(Restated)
Loss for the period attributable to owners of the Company	**(8,288)**	(9,629)
Less: loss for the period from discontinued operation	**–**	(351)
Loss for the period attributable to owners of the Company from continuing operations for the purpose of basic and diluted loss per share	**(8,288)**	(9,278)

	For the three months ended 31 March	
	2021	2020
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**506,546**	506,546

Discontinued operation

No basic and diluted earnings/loss per share from discontinued operation was recorded for the period. The basic and diluted loss per share from discontinued operation for the three months ended 31 March 2020 was approximately RMB0.07 cents (restated), based on the loss attributable to owners of the Company for the period from discontinued operation of approximately RMB351,000 (restated) and the denominators detailed above for both basic and diluted loss per share.

6. RESERVES

Save as disclosed below, there were no movements in the reserves of the Group for the relevant periods in 2021 and 2020:

	For the three months ended 31 March	
	2021	2020
	RMB'000	*RMB'000*
Accumulated losses		
At 1 January	**(52,278)**	(57,131)
Net loss	**(8,288)**	(9,629)
At 31 March	**(60,566)**	(66,760)

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2021 (2020: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

I. REVIEW OF OPERATIONS

1. Operating results

(i) Overview

Continuing operations

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

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, contract amount of orders obtained and progress of projects and therefore it is volatile.

In line with industry performance, the Group's hardware and computer software sales and e-commerce trading of general merchandise normally have relatively low gross profit margin. With the continuous optimisation of product structure and sales strategies and 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.

Discontinued operation

In previous years, the Group had also been carrying out the provision of telecommunication value-added services. Considering that the business no longer met the development needs of the Group, the Group had discontinued the business in the last quarter of last year and concentrated the limited resources of the Group to better develop other businesses. Details of the termination of the business were set out in the announcement of the Company dated 9 December 2020 and annual report of the Company for the year 2020 dated 19 March 2021.

(ii) Revenue

Continuing operations

For the three months ended 31 March 2021, (i) the trading of hardware and computer software business generated revenue of approximately RMB25,391,000 (2020: RMB36,005,000), representing an approximately 29.48% decrease when compared to the same period last year. The Group started to withdraw from the agency business of a certain brand due to the increased risks in its inventories price decline and receivables since the third quarter of last year, so the revenue for the period fell year-on-year; (ii) the provision of smart city solutions business generated revenue of approximately RMB2,873,000 (2020: RMB624,000), representing an approximately 360.42% increase when compared to the same period 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 has been actively expanding operation services to enhance the stable income capability of the business. During the same period last year, due to the impact of the "Novel Pneumonia Coronavirus" epidemic, the progress of the implementation of various projects under construction was slow and relatively less income was recognised; and (iii) the provision of e-commerce supply chain services business generated revenue of approximately RMB9,094,000 (2020: RMB14,683,000), representing an approximately 38.06% decrease when compared to the same period last year. The customer concentration of this business was relatively high. Since the second half of the year 2020, due to the business adjustment of the major customers, the business volume continued to decline. It is expected that the impact will not be eliminated in the short term. Through the establishment of Zhejiang Dianshi Technology Co., Ltd.* (浙江典石科技有限公司) ("**Dianshi Technology**"), the 41% owned subsidiary of the Company, at the end of the year 2020, the Group has started the deployment in social e-commerce.

For the three months ended 31 March 2021, the unaudited revenue of the Group from continuing operations was approximately RMB37,358,000 (2020: RMB51,312,000 (restated)), representing a decrease of approximately RMB13,954,000, or approximately 27.19%, as compared with that of the same period of the year 2020.

(iii) Gross profit margin

Continuing operations

For the three months ended 31 March 2021, (i) the gross profit margin of the trading of hardware and computer software business was approximately 7.75% (2020: 5.45%). Compared with the same period last year, the gross profit margin of this business has increased. 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, 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 17.19% (2020: 18.59%). 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. The Group has been actively expanding operation services to enhance the stable profitability of the business; and (iii) the gross profit margin of the provision of e-commerce supply chain services business was approximately 4.27% (2020: 3.65%). The Group has been striving to continuously adjust the sales structure of this business and increase the sales of brands and products with higher gross profit margins.

The unaudited gross profit margin of the Group from continuing operations for the three months ended 31 March 2021 was approximately 7.63% (2020: 5.09% (restated)). The Group's consolidated gross profit margin from continuing operations has increased. The main reason was that, on the one hand, the Group adjusted the sales structure of its hardware and computer software sales business and the provision of e-commerce supply chain services business to increase the overall business gross profit margin, and on the other hand, the proportion of the revenue of the provision of smart city solutions business with high profit margin has increased.

(iv) Loss attributable to owners of the Company

Continuing operations

For the three months ended 31 March 2021, (i) the trading of hardware and computer software business reported segment profit of approximately RMB186,000 (2020: RMB124,000). The business segment continued to adjust the sales strategy and sales structure of the business during the period to increase sales of brands and products with higher gross profit margins. Therefore, although the revenue has decreased, the overall business gross profit margin of the business has increased, and the segment profit has increased slightly; (ii) the provision of smart city solutions business reported segment loss of approximately RMB6,083,000 (2020: RMB7,617,000). This business segment received more software VAT tax rebates during the period than the same period last year, and the Group recorded investment gain on disposal of its 33% equity interests in Guifutong Network Technology Co., Ltd.* (貴服通網絡科技有限責任公司) ("**Guifutong**") (as detailed below). As a result, there was a slight decrease in the segment loss; (iii) the provision of e-commerce supply chain services business reported segment loss of approximately RMB405,000 (2020: profit of RMB308,000). The revenue of this business segment decreased significantly during the period. At the same time, the Group invested costs for the early deployment stage in the field of social e-commerce. Therefore, the segment results declined significantly. For the three months ended 31 March 2021, the net unallocated expenses of the Group from continuing operations were approximately RMB2,140,000 (2020: RMB2,093,000 (restated)).

As a result of the cumulative effect of the principal factors described above, for the three months ended 31 March 2021, the Group reported an unaudited net loss attributable to owners of the Company and loss per share from continuing operations of approximately RMB8,288,000 (2020: RMB9,278,000 (restated)) and RMB1.64 cents (2020: RMB1.83 cents (restated)), respectively.

Discontinued operation

For the three months ended 31 March 2021, the Group has not reported any unaudited results attributable to owners of the Company from discontinued operation (2020: loss of RMB351,000 (restated)).

Continuing and discontinued operations

For the three months ended 31 March 2021, the Group reported an unaudited net loss attributable to owners of the Company and loss per share from continuing and discontinued operations of approximately RMB8,288,000 (2020: RMB9,629,000) and RMB1.64 cents (2020: RMB1.90 cents), respectively.

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

As at 31 March 2021, the Group's total unaudited bank balances and cash and financial assets at fair value through profit or loss (representing the wealth management products subscribed with banks as detailed below) amounted to approximately RMB46,610,000 (31 December 2020: RMB53,753,000). 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 31 March 2021 were approximately 37.18% (31 December 2020: 37.67%) and 43.55% (31 December 2020: 47.77%), respectively.

2. Impact of "Novel Pneumonia Coronavirus" epidemic

The outbreak of the "Novel Pneumonia Coronavirus" epidemic in early 2020 had made a deep impact on the social and economic development. Now the country has adopted effective anti-epidemic measures, the epidemic has basically been brought under control, citizens' lives have basically not been affected, and the number of people infected overseas, save for some individual areas, is gradually decreasing. At present, the Group has basically returned to normal, except that individual operating activities of the cross-border e-commerce supply chain services business have still been negatively affected by the epidemic. In addition to carrying out necessary epidemic prevention work, the Group is actively seizing market development opportunities in the post-epidemic era, seeking business orders as well as business transformation and development breakthrough opportunities.

3. Business and product development

Continuing operations

During the reporting period, the Group (i) strengthened its risk management in the trading of hardware and computer software business, continued to adjust its sales strategy and sales structure, increased the proportion of sales revenue from end customers with higher gross profit margins, and expanded the system integration service business to ensure the overall stable development of the business; (ii) actively grasped the development opportunities of domestic smart cities construction in the provision of smart city solutions business, leveraged on external resources, strengthened internal coordination, gave full play to the advantages of "digital anti-epidemic (數字抗疫)", seized market opportunities such as the promotion of "new infrastructure (新基建)" and "integrated information cooperation in Yangtze River Delta (長三角一體化信息化合作)" by the government and the upgrade of third-generation social security cards, and kept on providing 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 where the Group has maintained good relationships with customers. At the same time, the Group also vigorously explored new customer resources within and outside Zhejiang Province. In addition, with the development of new technologies such as AIoT and big data, the Group vigorously innovated to provide new smart city solutions services and new solution services in other sub-segments (such as smart trade union, smart community, smart housekeeping and digital village, etc.) based on the city brain (城市數據大腦), and continued to conduct useful exploration in platform operation services; and (iii) actively opened up domestic and overseas upstream supply channels to maintain the output of its provision of e-commerce supply chain services under the dual influence of the pandemic and integration of domestic cross-border e-commerce platforms. At the same time, focusing on Dianshi Technology, the Company's 41% owned subsidiary newly established at the end of 2020, the Group actively built up a community marketing service team and commenced the construction of a new retail entrepreneurial incubation platform to prepare for the subsequent development of community marketing services for maternal and infant products, pet food and supplies and other products.

4. Investment and cooperation

(i) Business investment and cooperation

On 25 January 2021, Dianshi Technology, the Company's 41% owned subsidiary, entered into an investment cooperation framework agreement with Mr. Xie Zhizong (謝志宗), an independent third party, pursuant to which the afore-mentioned two parties had agreed to form Hangzhou Mengya Technology Co., Ltd.* (杭州萌呀科技有限公司) (formerly known as Hangzhou Finmei Network Technology Co., Ltd.* (杭州芬美網絡科技有限公司)) ("**Mengya Technology**") through acquisition and subsequent capital injection with a total registered capital of RMB1,000,000 in Hangzhou City, Zhejiang Province, the PRC. Each of Dianshi Technology and Mr. Xie Zhizong had agreed to contribute to the total registered capital of Mengya Technology at RMB670,000 and RMB330,000, respectively. Mengya Technology will mainly use e-commerce channels to carry out brand agency and sales of pet food and supplies, as a useful supplement to community marketing services. Mengya Technology's industrial and commercial registration change was registered on 4 March 2021 and it was accounted for as a subsidiary of the Company and its financial statements were incorporated in the consolidated financial statements of the Group.

On 15 March 2021, 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 equity transfer agreement (the "**Equity Transfer 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 agreed to sell its 33% equity interests in Guifutong to Guiguang Network for a consideration of RMB7,218,500. Guifutong has been principally engaged in the provision of smart city solutions, involving mainly the construction and operation of the Guifutong Service Platform and the related value-added application service platform and big data platform. Guifutong was then an associate of the Group and was owned as to 33% by Increator Technology and 67% by Guiguang Network. Details of the Equity Transfer Agreement and disposal of 33% equity interests in Guifutong were set out in the announcement of the Company dated 15 March 2021 and annual report of the Company for the year 2020 dated 19 March 2021. Up to the date of this report, the Equity Transfer Agreement has been completed and the Group no longer holds any equity interests in Guifutong, which has ceased to be an associate of the Group.

Subsequent to the period end, on 20 April 2021, Dianshi Technology, the Company's 41% owned subsidiary, entered into an investment cooperation framework agreement with Hangzhou Fun and Culture Creativity Partnership LP* (杭州拾趣文化創意合伙企業(有限合夥)) ("**Fun and Culture Creativity Partnership**"), pursuant to which the afore-mentioned two parties had agreed to establish Zhejiang Full Fun Technology Co., Ltd.* (浙江滿趣科技有限公司) ("**Full Fun Technology**") with a registered capital of RMB10,000,000 in Huzhou City, Zhejiang Province, the PRC and each of Dianshi Technology and Fun and Culture Creativity Partnership had agreed to contribute to the registered capital of Full Fun Technology at RMB7,000,000 and RMB3,000,000, respectively. Full Fun Technology will be principally engaged in community marketing services platform operation business, providing community marketing services related mainly to maternal and infant food and supplies, children's clothing and children's footwear products. Details of the establishment of Full Fun Technology and related investment cooperation framework agreement were set out in the announcement of the Company dated 20 April 2021. Full Fun

Technology was established on 23 April 2021 and will be accounted for as a subsidiary of the Company and its financial statements will be incorporated in the consolidated financial statements of the Group.

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

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

(ii) Investments in wealth management products

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.* (杭州銀行股份有限公司) (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 2.25% to 2.45% (2020: 2.80%), 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 2.89% to 3.31% (2020: 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.

During the three months ended 31 March 2021 and 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.

As at 31 March 2021, the Group's investments in the Wealth Management Products issued by the said two banks were classified as financial assets at fair value through profit or loss in its consolidated statement of financial position, with an unaudited aggregate outstanding principal amounted to approximately RMB33,200,000 (31 December 2020: RMB25,500,000) and represented approximately 26.49% (31 December 2020: 17.87%) of its total assets. For the three months ended 31 March 2021, the unaudited gain realised by the Group from the Wealth Management Products amounted to approximately RMB171,000 (2020: RMB121,000).

II. LITIGATION

On 8 March 2021, the Company received a civil complaint and a court summons issued by the People's Court of Haidian District, Beijing to the Company with Case Number (2020) Beijing 0108 Min Chu No. 24340, under which Beijing Fortis Oriental Technology Co., Ltd.* (北京富通東方科技有限公司) (the "**Plaintiff**") sued the Company and three other defendants (collectively referred to as the "**Defendants**") on the ground of infringement of trade secrets disputes, requesting the payments of (i) compensation for financial losses of approximately RMB10,944,000 and related interest payment calculated for the period from 7 July 2008 to 30 April 2020, with total principal and interest amounting to approximately RMB18,096,000; (ii) related expenses for handling the case of RMB300,000; and (iii) all litigation costs, jointly by the Defendants (the "**Litigation**"). Details of the Litigation were set out in the announcement of the Company dated 9 March 2021 and annual report of the Company for the year 2020 dated 19 March 2021.

The case was heard on 15 April 2021. During the trial, following the elucidation by the judge, the Plaintiff clearly agreed that the Defendants had not committed joint infringements and that the Defendants were not related with each other, and agreed to withdraw the lawsuit against the Company and two of the other defendants, and only sued the remaining fourth defendant. The Plaintiff immediately submitted an application to withdraw the lawsuit against the

Company and the other two defendants, which was accepted and approved by the court (an oral ruling was made in the court, and no separate written ruling would be issued). The trial of the Litigation is over and the Company does not need to bear any compensation liability for the Litigation.

III. FUTURE PROSPECTS

1. Orders in hand/status in sales contract

During the reporting period, the Group's trading of hardware and computer software business maintained close cooperative relationships with well-known hardware and software vendors. On the basis of external sales of computer storage servers and other products and services, it ventured into system integration services in the security sector, and sought to increase the proportion of system integration service contract revenue as part of its effort to gradually improve the business income structure and profitability. The Group's smart city solutions business's construction service contracts were being implemented in and outside of Zhejiang Province as planned, and it has established good cooperative relationships with local city customers, explored customer needs, provided 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)". Business orders and contracts in many other cities in the country were procured, creating paths for subsequent new contracts and orders. The Group's e-commerce supply chain services business has established cooperative relationships with a number of domestic e-commerce platforms, domestic and foreign brand manufacturers and merchants. However, business model restrictions and intensified market competition would lead to moderate strategic contraction of the traditional cross-border e-commerce supply chain services. The community marketing services that have been focused on and cultivated are stepping up the preparation and layout, and initial intention for cooperation has been reached with a number of potential partners to lay sufficient preparations for the rapid start-up development within this year.

2. Prospects of new business and new products

The Group has continued to pursue business transformation and development. During the reporting period, the "Fourteenth Five-Year (十四五)" five-year development strategy planning discussion was organised and carried out, the direction of business development was gradually clear, and the building of a business ecosystem in line with the development of the Group was further clarified. The Group will integrate its existing business and technological advantages to continue seeking new business opportunities, with the support of technological development and business innovation capabilities grasped by the provision of smart city solutions business, collaborating with other businesses, exploiting and integrating resource advantages, and developing innovative new businesses or products to bulid a business ecosystem with sustainable development capabilities.

On the one hand, the Group will follow the trend of promoting "digital governance (數字治理)" in the PRC and "digital reform (數字化改革)" in Zhejiang Province, make use of the technical advantages and customer resources in various cities accumulated in the provision of smart city solutions business, strengthen the innovation of solutions, 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)", especially enhance the innovative expansion of application scenarios and service functions of new applications of digital citizens (數字市民) based on the city brain (城市數據大腦), such as further strengthening the development of applications like smart trade union, smart community, digital village and smart housekeeping services. The Group will grasp the opportunities arose from the deep reconsideration by the state and governments at all levels of social governance and city management service capabilities and efficiency, promote to customers in various cities better solutions, which possess perfect digital information services including "information release, information collection, traceability and behavior management", for the improvement of their social governance and city management, and drive the development of new customers and excavation of old customers of the business.

On the other hand, the Group will continue to develop operation services, aiming to provide a variety of convenient and value-added services to the broad customer base of the "Digital Citizen and Citizen Card Service Platform* (數字市民及市民卡服務平台)" and maximise business value. Firstly, the Group will continue to promote the output of operation services in smart trade unions. While providing system solution development services, it will also enhance its value-added service capabilities and provide trade unions and their members with personalised value-added services and products. Secondly, the Group will also encourage the e-commerce supply chain services business to provide operation services for e-commerce platforms, further accumulate upstream and downstream channel resources to secure products and service capabilities with sufficient profit potential, and push forward the coordinated development and resources complementation with the operation services of the provision of smart city solutions business.

Further, the Group will actively pursue the transformation and development of other business sectors, accelerate the cultivation and development of new projects, and actively promote the effective implementation of various plans enhancing the construction of its own business ecosystem. Firstly, to guide 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 smart city solutions business, and encourage useful exploration in other product sales services, and clear plan for smart campus services has been made. Secondly, to accelerate the cultivation of e-commerce supply chain services business in brand promotion services and community marketing services, establish operation teams as scheduled, search for high-quality product supply chain channels, and build service platforms to achieve effective breakthroughs in transformation and development as soon as possible.

In order to achieve its strategic development goals, the Group has actively and steadily advanced related work in accordance with the above plan, established relevant departments or companies and introduced talents to build business teams. The Board believes that the Group would seize the opportunity and, through adoption of effective measures and with the coordinated development of each business sector, the Group can build a business ecosystem with its own characteristics with full and effective coverage from technology to service, from product to platform, from offline to online, and from B end to C end in the future. The Group's sustainable profitability in the mobile Internet service sector 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 31 March 2021, 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 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
Director and vice chairman			
Mr. Chen Ping	Beneficial owner	27,294,240 domestic shares	5.39%

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

For the three months ended 31 March 2021, none of the Directors, supervisors or chief executives of the Company was granted options to subscribe for the shares of the Company (2020: Nil). As at 31 March 2021, 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 (2020: 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 had expired on 20 April 2012. No options had been granted by the Company under the Share Option Scheme.

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 31 March 2021, 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
Substantial Shareholders			
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%

Name	Capacity and nature of interest	Number of shares held	Percentage of beneficial interests in the Company's share capital
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%
Ms. Qian Xiaomei	Interest of spouse	168,846,930 domestic shares and 93,130,000 H shares *(Note 3)*	51.72%

Name	Capacity and nature of interest	Number of shares held	Percentage of beneficial interests in the Company's share capital
Other persons			
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 *(Note 4)*	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 *(Note 5)*	6.67%
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 company established in the PRC, which in turn is owned as to 75% by Mr. Xia Shilin. For the purposes of the SFO, Deqing Huisheng and Mr. Xia Shilin are each deemed to be interested in the 168,846,930 domestic shares owned by Zhejiang Shenghua.

(2) These 93,130,000 H shares are beneficially owned by Rise Sea. Rise Sea is a limited 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 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. 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 the management Shareholders and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

COMPARATIVES

Certain items related to the discontinued operation during the three months ended 31 March 2020 have been restated to conform to the current period's presentation.

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. Presently, the audit committee of the Company comprises three independent non-executive Directors, Mr. Shen Haiying, Mr. Cai Jiamei and Ms. Huang Lianxi whereas Mr. Shen Haiying is the chairman. The first quarterly results and report of the Group for the three months ended 31 March 2021 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 three months ended 31 March 2021 (2020: Nil).

On behalf of the Board
Shenghua Lande Scitech Limited*
Qi Jinsong
Chairman

Hangzhou City, the PRC, 14 May 2021

* *For identification purposes only*