



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

Third Quarterly Report 2021

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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 from continuing operations of approximately RMB129,204,000 for the nine months ended 30 September 2021, representing an approximately 21.50% 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 RMB13,485,000 for the nine months ended 30 September 2021, compared to a net loss attributable to owners of the Company from continuing operations of approximately RMB6,435,000 (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 nine months ended 30 September 2021, comparing to a net loss attributable to owners of the Company from discontinued operation of approximately RMB655,000 (restated) 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 RMB13,485,000 for the nine months ended 30 September 2021, comparing to a net loss attributable to owners of the Company from continuing and discontinued operations of approximately RMB7,090,000 incurred for the same period of the year 2020.
- The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2021.

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 2021.

2021 THIRD QUARTERLY RESULTS

For the nine months ended 30 September 2021, the Group recorded an unaudited revenue from continuing operations of approximately RMB129,204,000 (2020: RMB164,584,000 (restated)), representing a decrease of approximately RMB35,380,000, or approximately 21.50%, as compared with the unaudited revenue from continuing operations for the same period of the year 2020. For the three months ended 30 September 2021, the Group recorded an unaudited revenue from continuing operations of approximately RMB44,664,000 (2020: RMB45,346,000 (restated)), representing a decrease of approximately RMB682,000 or approximately 1.50%, as compared with the unaudited revenue from continuing operations for the same period of the year 2020.

For the nine months ended 30 September 2021, the Group recorded an unaudited net loss attributable to owners of the Company from continuing operations of approximately RMB13,485,000 (2020: RMB6,435,000 (restated)). For the three months ended 30 September 2021, the Group recorded an unaudited net loss attributable to owners of the Company from continuing operations of approximately RMB3,641,000 (2020: profit of RMB4,090,000 (restated)).

For the nine months ended 30 September 2021, the Group had not recorded any unaudited results attributable to owners of the Company from discontinued operation (2020: loss of RMB655,000 (restated)). For the three months ended 30 September 2021, the Group had not recorded any unaudited results attributable to owners of the Company from discontinued operation (2020: loss of RMB243,000 (restated)).

For the nine months ended 30 September 2021, the Group recorded an unaudited net loss attributable to owners of the Company from continuing and discontinued operations of approximately RMB13,485,000 (2020: RMB7,090,000). For the three months ended 30 September 2021, the Group recorded an unaudited net loss attributable to owners of the Company from continuing and discontinued operations of approximately RMB3,641,000 (2020: profit of RMB3,847,000).

The unaudited results of the Group for the nine and three months ended 30 September 2021, together with the unaudited comparative figures for the corresponding periods in 2020, are as follows:

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2021 RMB'000	2020 RMB'000 (Restated)	2021 RMB'000	2020 RMB'000 (Restated)
Continuing operations					
Revenue	2	129,204	164,584	44,664	45,346
Cost of sales		(115,474)	(147,118)	(38,894)	(36,584)
Gross profit		13,730	17,466	5,770	8,762
Other operating income, net gains or losses	3	2,522	1,475	590	11
Distribution and selling expenses		(5,168)	(5,218)	(2,888)	(2,090)
General and administrative expenses		(24,156)	(14,841)	(8,096)	(429)
Research and development expenditure		(6,268)	(5,060)	(2,797)	(2,131)
Share of result of an associate		-	68	-	57
Finance costs		(266)	(232)	(131)	(64)
(Loss) profit before tax		(19,606)	(6,342)	(7,552)	4,116
Income tax	4	(307)	(93)	(60)	(26)
(Loss) profit for the period from continuing operations		(19,913)	(6,435)	(7,612)	4,090
Discontinued operation	5				
Loss for the period from discontinued operation		-	(771)	-	(285)
(Loss) profit for the period		(19,913)	(7,206)	(7,612)	3,805

	Nine months ended 30 September		Three months ended 30 September	
	2021 RMB'000	2020 RMB'000 (Restated)	2021 RMB'000	2020 RMB'000 (Restated)
(Loss) profit for the period attributable to owners of the Company				
– from continuing operations	(13,485)	(6,435)	(3,641)	4,090
– from discontinued operation	-	(655)	-	(243)
(Loss) profit for the period attributable to owners of the Company	(13,485)	(7,090)	(3,641)	3,847
Loss for the period attributable to non-controlling interests				
– from continuing operations	(6,428)	-	(3,971)	-
– from discontinued operation	-	(116)	-	(42)
Loss for the period attributable to non-controlling interests	(6,428)	(116)	(3,971)	(42)
	(19,913)	(7,206)	(7,612)	3,805
(Loss) earnings per share				
From continuing and discontinued operations				
Basic and diluted (RMB)	(2.66) cents	(1.40) cents	(0.72) cents	0.76 cents
From continuing operations				
Basic and diluted (RMB)	(2.66) cents	(1.27) cents	(0.72) cents	0.81 cents

Notes

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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

	Nine months ended 30 September		Three months ended 30 September	
	2021 RMB'000	2020 RMB'000 (restated)	2021 RMB'000	2020 RMB'000 (restated)
Trading of hardware and computer software	88,812	92,539	35,402	27,588
Provision of smart city solutions	18,725	15,401	6,360	13,309
Provision of e-commerce supply chain services	21,667	56,644	2,902	4,449
	129,204	164,584	44,664	45,346

3. OTHER OPERATING INCOME, NET GAINS OR LOSSES

Continuing operations

	Nine months ended 30 September		Three months ended 30 September	
	2021 RMB'000	2020 RMB'000 (restated)	2021 RMB'000	2020 RMB'000 (restated)
Government grant <i>(Note)</i>	1,605	1,254	121	656
Exchange (loss) gain, net	(514)	(316)	30	(753)
Bank interest income	524	378	142	110
(Provision) reversal of impairment loss of trade receivables, net	(82)	133	297	(24)
Gain on disposal of an associate	459	–	–	–
Reversal of impairment loss of right-of-use assets	529	–	–	–
Others	1	26	–	22
	2,522	1,475	590	11

Note: Government grants received during the relevant periods related to rebate of value-added tax and government subsidies. There were no unfulfilled conditions or contingencies relating to those grants.

4. INCOME TAX

Continuing operations

	Nine months ended 30 September		Three months ended 30 September	
	2021 RMB'000	2020 RMB'000 (restated)	2021 RMB'000	2020 RMB'000 (restated)
PRC Enterprise Income Tax ("EIT")	307	93	60	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% (2020: 25%). During the relevant periods, 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 Company for the relevant periods (2020: Nil) as there was no assessable profit derived by the Company for the relevant periods (2020: Nil). For the nine and three months ended 30 September 2021, (i) the Group's subsidiaries established in the PRC had completed the payment of 2021 income tax of approximately RMB25,000 (2020: Nil) and RMB25,000 (2020: Nil), respectively; (ii) the Group's subsidiaries established in the PRC had completed the payment of EIT after the final settlement of the 2020 income tax of approximately RMB217,000 (2020: Nil) and nil (2020: Nil), respectively; and (iii) the representative office set up in Hangzhou City by the subsidiary of the Group established in Hong Kong paid income tax expenses pursuant to domestic tax law of approximately RMB65,000 (2020: RMB93,000) and RMB35,000 (2020: RMB26,000), respectively.

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

5. 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 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 nine and three months ended 30 September 2021 from discontinued operation were set out below:

	Nine months ended 30 September		Three months ended 30 September	
	2021 RMB'000	2020 RMB'000 (restated)	2021 RMB'000	2020 RMB'000 (restated)
Loss for the period from discontinued operation	-	771	-	285

6. (LOSS) EARNINGS PER SHARE

Continuing and discontinued operations

The calculation of the basic loss per share from continuing and discontinued operations for the nine months ended 30 September 2021 is based on loss for the period attributable to owners of the Company of approximately RMB13,485,000 (2020: RMB7,090,000) and the weighted average number of approximately 506,546,000 (2020: 506,546,000) shares in issue during the period.

The calculation of the basis (loss) earnings per share from continuing and discontinued operations for the three months ended 30 September 2021 is based on loss for the period attributable to owners of the Company of approximately RMB3,641,000 (2020: profit of RMB3,847,000) and the weighted average number of approximately 506,546,000 (2020: 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 and three months ended 30 September 2021 and 2020 as there were no potential ordinary shares existed during the relevant periods.

Continuing operations

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

(Loss) earnings figures are calculated as follows:

	Nine months ended 30 September		Three months ended 30 September	
	2021 RMB'000	2020 RMB'000 (restated)	2021 RMB'000	2020 RMB'000 (restated)
(Loss) profit for the period attributable to the owners of the Company	(13,485)	(7,090)	(3,641)	3,847
Less: loss for the period from discontinued operation	-	(655)	-	(243)
(Loss) profit for the period attributable to the owners of the Company from continuing operations for the purpose of basic and diluted (loss) earnings per share	(13,485)	(6,435)	(3,641)	4,090
	Nine months ended 30 September		Three months ended 30 September	
	2021 '000	2020 '000	2021 '000	2020 '000
Number of shares				
Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share	506,546	506,546	506,546	506,546

7. RESERVES

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

	Nine months ended 30 September	
	2021	2020
	RMB'000	RMB'000
Accumulated losses		
At 1 January	(52,278)	(57,131)
Net loss	(9,844)	(10,937)
At 30 June	(62,122)	(68,068)
Net (loss) profit	(3,641)	3,847
At 30 September	(65,763)	(64,221)

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 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 providing 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 discontinuation 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 nine months and three months ended 30 September 2021, (i) the trading of hardware and computer software business generated revenue of approximately RMB88,812,000 (2020: RMB92,539,000) and RMB35,402,000 (2020: RMB27,588,000), respectively, representing approximately 4.03% decrease and 28.32% increase, respectively, when compared to the same period of 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, However, more orders from major customers were won during the period, so the cumulative revenue fluctuated slightly, and the revenue for the third quarter of the year increased year-on-year; (ii) the provision of smart city solutions business generated revenue of approximately RMB18,725,000 (2020: RMB15,401,000) and RMB6,360,000 (2020: RMB13,309,000), respectively, representing approximately 21.58% increase and 52.21% decrease, respectively, when compared to the same period of last year. The business focuses on construction project currently. 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 fluctuations 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. Also, during the same

period of 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 revenue was recognised; and (iii) the provision of e-commerce supply chain services business generated revenue of approximately RMB21,667,000 (2020: RMB56,644,000) and MB2,902,000 (2020: RMB4,449,000), respectively, representing approximately 61.75% and 34.77% decrease, respectively, when compared to the same period of last year. The customer concentration of this business was relatively high. Since the second half of the year 2020, the business volume continued to decline due to the business adjustment of the major customers. 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 nine months ended 30 September 2021, the unaudited revenue of the Group from continuing operations was approximately RMB129,204,000 (2020: RMB164,584,000 (restated)), representing a decrease of approximately RMB35,380,000, or approximately 21.50%, as compared with that of the same period of the year 2020. For the three months ended 30 September 2021, the unaudited revenue of the Group from continuing operations was approximately RMB44,664,000 (2020: RMB45,346,000 (restated)), representing a decrease of approximately RMB682,000, or approximately 1.50%, as compared with that of the same period of the year 2020.

(iii) Gross profit margin

Continuing operations

For the nine months and three months ended 30 September 2021, (i) the gross profit margin of the trading of hardware and computer software business was approximately 8.46% (2020: 8.54%) and 9.23% (2020: 8.66%), respectively. The Group strived to continuously adjust the sales strategy and sales structure of this business, increasing the sales of brands and products with 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; (ii) the gross profit margin of the provision of smart city solutions business was approximately 25.86% (2020: 41.73%) and 34.32% (2020: 44.17%), 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. 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 6.34% (2020: 5.53%) and 11.03% (2020: 11.10%), respectively. 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 margin, and cultivating community marketing services business.

The unaudited gross profit margin of the Group from continuing operations for the nine months and three months ended 30 September 2021 was approximately 10.63% (2020: 10.61% (restated)) and 12.92% (2020: 19.32% (restated)), respectively. For the nine months ended 30 September 2021, the Group's consolidated gross profit margin from continuing operations did not fluctuate much year-on-year, while the third quarter's gross profit margin declined significantly year-on-year, mainly due to the significant year-on-year decline in the third quarter revenue of the provision of smart city solutions business with high profit margin.

(iv) (Loss) profit attributable to owners of the Company

Continuing operations

For the nine months and three months ended 30 September 2021, (i) the trading of hardware and computer software business reported segment profit of approximately RMB3,684,000 (2020: RMB4,283,000) and RMB2,223,000 (2020: RMB1,415,000), respectively. This business segment withdrew from a certain brand agency business as a result of its continuous adjustment in sales structure last year, so there was a drop in its revenue. At the same time, the business segment is also actively expanding new businesses and investing corresponding costs. Therefore, the segment profit has decreased. In the third quarter of this year, due to a year-on-year increase in revenue, the segment profit increased; (ii) the provision of smart city solutions business reported segment loss of approximately RMB8,703,000 (2020: RMB6,321,000) and RMB1,833,000 (2020: profit of RMB5,299,000), respectively. The revenue of this business segment increased during the period, but the gross profit margin of this business during the period has dropped significantly year-on-year, and the labor cost of the period has increased, so the segment loss has increased. The revenue of this business segment in the third quarter fell significantly year-on-year, so the segment performance fell significantly year-on-year; and (iii) the provision of e-commerce supply chain services business reported segment loss of approximately RMB9,679,000 (2020: profit of RMB486,000) and RMB6,044,000 (2020: RMB516,000), respectively. The revenue of this business segment decreased significantly during the period. At the same time, the Group has been cultivating community marketing services in the field of social e-commerce, and invested significant costs for early deployment (especially in the second and third quarters). The new business line has not yet generated income during the period. Therefore, the segment results declined significantly. For the nine months and three months ended 30 September 2021, the net unallocated expenses of the Group from continuing operations were approximately RMB4,908,000 (2020: RMB4,790,000 (restated)) and RMB1,898,000 (2020: RMB2,082,000 (restated)).

As a result of the cumulative effect of the principal factors described above, for the nine months ended 30 September 2021, the Group reported an unaudited net loss attributable to owners of the Company and loss per share from continuing operations of approximately RMB13,485,000 (2020: RMB6,435,000 (restated)) and RMB2.66 cents (2020: RMB1.27 cents (restated)), respectively. For the three months ended 30 September 2021, the Group reported an unaudited net loss attributable to owners of the Company and loss per share from continuing operations of approximately RMB3,641,000 (2020: profit of RMB4,090,000 (restated)) and RMB0.72 cents (2020: earnings of RMB0.81 cents (restated)), respectively.

Discontinued operation

For the nine months ended 30 September 2021, the Group has not reported any unaudited results attributable to owners of the Company from discontinued operation (2020: loss of RMB655,000 (restated)). For the three months ended 30 September 2021, the Group has not reported any unaudited results attributable to owners of the Company from discontinued operation (2020: loss of RMB243,000 (restated)).

Continuing and discontinued operations

For the nine months ended 30 September 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 RMB13,485,000 (2020: RMB7,090,000) and RMB2.66 cents (2020: RMB1.40 cents), respectively. For the three months ended 30 September 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 RMB3,641,000 (2020: profit of RMB3,847,000) and RMB0.72 cents (2020: earnings of RMB0.76 cents), respectively.

Though the financial performance of the Group for the nine months ended 30 September 2021 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 2021, 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 detailed below) amounted to approximately RMB73,490,000 (30 June 2021: RMB34,375,000). 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 2021 were approximately 41.50% (30 June 2021: 26.08%) and 74.13% (30 June 2021: 32.51%), respectively. The Group added new borrowings in the third quarter of the year to prepare for the increase of working capital for the Group's operations. Therefore, the total bank balances and cash and financial assets at fair value through profit or loss and the above-mentioned related ratios have increased significantly.

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, through the adoption of effective anti-epidemic measures, has basically brought the epidemic under control and, except for individual areas affected by sporadic cases, the lives of domestic urban residents are basically unaffected. The epidemic situation overseas (except for some individual regions) is gradually improving. Limited by the current epidemic prevention requirements, the individual operating activities and new business development of the Group's e-commerce supply chain services business have been negatively affected by the epidemic. The Group will pay close attention to the trend of the epidemic and strive to overcome the impact of the epidemic, and, in addition to carrying out necessary epidemic prevention work, 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 the prevention and control of inventory and receivable risks in the trading of hardware and computer software business, continued to adjust the sales strategy and sales structure, strived to increase the proportion of end customers sales revenue with higher gross profit margin, 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)”, “integrated information cooperation in Yangtze River Delta (長三角一體化信息化合作)” and the upgrade of third-generation social security cards by the government, 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 and has achieved certain results. 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 for 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). Among them, the digital intelligence group system (數智群團系統) developed and constructed by Increator Technology Co., Ltd.* (浙江創建科技有限公司) (“**Increator Technology**”), a wholly-owned subsidiary of the Company, for groups such as labour unions, women’s federations and the Red Cross, has been satisfactorily applied in the group overall intellectual governance (群團整體智治) in Hangzhou City and gained good praise. The Group also 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 business 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 the year 2020, the Group has organised a community marketing services team in an orderly manner and constructed a new retail entrepreneurial incubation platform. After unremitting efforts over the three quarters, the development of the online Kiddol platform has successfully been completed at the end of September this year. The start-up operation has been achieved and the community marketing services for product series for maternal and infants, etc., have been launched.

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 completed 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, 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 Network Technology Co., Ltd.* (貴服通網絡科技有限責任公司) (**“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 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.

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夥企業(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. 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 it was accounted for as a subsidiary of the Company and its financial statements were incorporated in the consolidated financial statements of the Group.

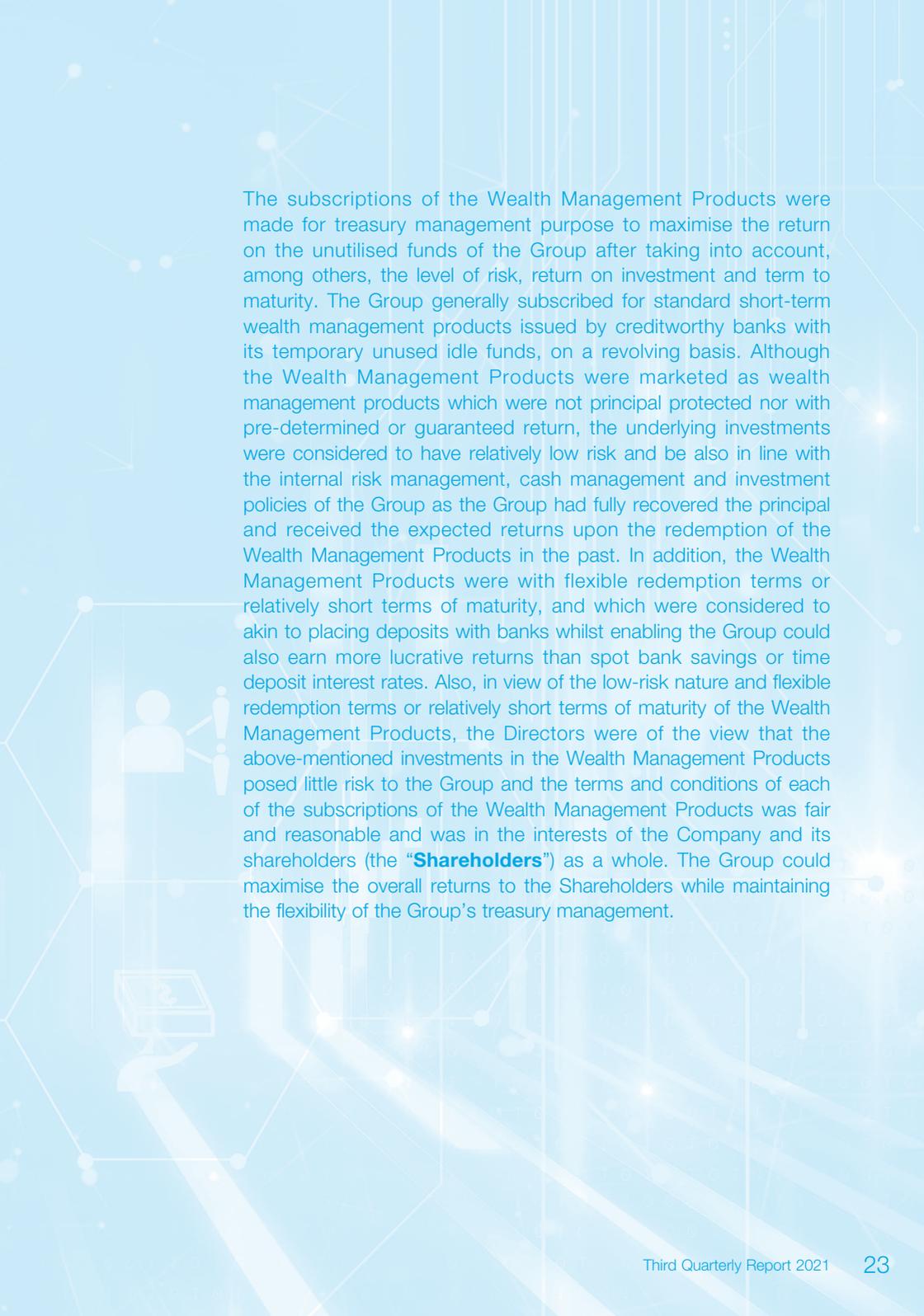
On 2 August 2021, Dianshi Technology, the Company's 41% owned subsidiary, signed an equity transfer agreement with Ms. Yuan Xiuli (袁秀麗) (who holds 66.67% equity interests in Fun and Culture Creativity Partnership and is a connected person at the subsidiary level of the Company), pursuant to which Dianshi Technology acquired 100% equity interests of Hangzhou Full Fun Technology Supply Chain Management Co., Ltd.* (杭州滿趣供應鏈管理有限公司) ("**Full Fun Supply Chain**") from Ms. Yuan Xiuli at zero consideration. Full Fun Supply Chain was established in November 2020 with a registered capital of RMB1,000,000 and the paid-in capital is zero. As at 30 June 2021, the unaudited total assets and net liabilities of Full Fun Supply Chain were approximately RMB41,000 and RMB377,000, respectively. According to GEM Listing Rule 20.74(1), the acquisition of Full Fun Supply Chain and signing of the related equity transfer agreement constituted a fully exempted connected transaction of the Company. Full Fun Supply Chain is mainly engaged in the development and management of supply chain channels and has accumulated certain relevant supply chain achievements, which will help to provide more high-quality commodity supply for the community marketing services under cultivation. Full Fun Supply Chain's industrial and commercial registration change was completed on 16 August 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.

Besides the investment activities mentioned above, 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 the 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, etc.). The expected annualised rate of return of the BOC Wealth Management Products was around 2.25% to 2.84% (2020: 2.40% to 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 highly liquid assets such as various bonds, deposits and money market financial instruments, 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 2.71% to 3.65% (2020: 2.90% to 3.20%), 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 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 nine and three months ended 30 September 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 30 September 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 RMB8,550,000 (30 June 2021: RMB18,575,000) and represented approximately 4.83% (30 June 2021: 14.09%) of its total assets. For the nine and three months ended 30 September 2021, the unaudited gain realised by the Group from the Wealth Management Products amounted to approximately RMB503,000 (2020: RMB359,000) and RMB133,000 (2020: RMB106,000), respectively.

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. Order backlog/sales contracts

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 services in the field of smart security, including the promotion of smart and safe campus services to provinces like Anhui Province around Zhejiang Province (currently piloted in two schools), 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, laying a good foundation for the subsequent continuous generation of new contracts and orders. The Group's e-commerce supply chain services business has established cooperative relationships with a number of well-known domestic e-commerce platforms, domestic and foreign brand manufacturers and merchants. However, business model restrictions and intensified market competition had led to a moderate strategic contraction of the traditional cross-border e-commerce supply chain services. The community marketing services business focused on and cultivated has successfully started operation, and the self-developed and operated APP platform has been launched, integrating many contracted upstream channel suppliers, mining high-quality products, for the provision of high-quality community marketing services and products for downstream B-end and C-end customers.

2. Prospects of new business and new products

The Group has continued to pursue business transformation and development. According to the “Fourteenth Five-Year (十四五)” five-year development strategy plan discussed in the first half of the year, 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 businesses and technological advantages, and bases on this, seek greater business development opportunities. The Group expects to, through employing the technological development and business innovation capabilities grasped by the smart city solutions business, and making use of the trading of hardware and computer software business and e-commerce supply chain services business sector’s own advantages, collaborate, exploit and integrate resource advantages, for the supporting of innovation and development of new businesses or products to build 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 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 perfect digital information services possessing “information release, information collection, traceability and behaviour management”, provide better solutions for the advancement and 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 strengthen the development of operation services. 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, 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)” in the future and maximise business value. Secondly, the Group will accelerate the key cultivation of e-commerce supply chain services business in community marketing services. On the basis of achieving the smooth start and operation of community marketing services in the third quarter of the year, the Group will further promote the formation and running-in of the operation team, improve internal processes and mechanisms, and expand the construction of high-quality product supply chain channels, in order to accomplish an effective breakthrough in transformation and development. Thirdly, the Group will encourage the e-commerce supply chain services business to use its accumulated private domain traffic operation service experience to provide operation service support to platform customers of the smart city solutions business, provide high-quality goods and services and achieve coordinated development and resources complementation.

Further, in addition to the above transformation initiatives, 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 implementation of various plans, such as 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 market development of the smart city solutions business, and encouraging its useful exploration in other product sales services. Especially, in terms of the clearly supported development of smart and safe campus services, the Group will use existing school projects as a model to accumulate experience and speed up the domestic market layout in Anhui, Fujian, Jiangsu and other provinces, and strive to become a breakthrough in the transformation of this business.

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, introduced talents to build business teams and set up related management mechanism. The Board is well aware that the transformation and development of the Group will not be achieved overnight. In the process of transformation and development, there are many uncertainties, and there will inevitably be a period of development pains. However, the Board believes that the Group would seize the opportunity and, through adoption of effective measures and with the transformation breakthrough and coordinated development of each business sector, achieve effective coverage from technology to service, from product to platform, from offline to online, and from B end to C end in the future, and build a business ecosystem with its own characteristics. 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 30 September 2021, none of the Directors, supervisors or chief executives of the Company had interest in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the “SFO”)) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange:



Long position in shares

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

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

For the nine months ended 30 September 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 30 September 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 (30 June 2021: 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.

INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, so far as was known to any Directors, supervisors or chief executives of the Company, as at 30 September 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 Division 2 and 3 or Part XV of the SFO; or who were deemed to be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company; or who were Shareholders 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) 93,130,000 and H shares (Note 2)	51.72%
Rise Sea Limited (“Rise Sea”)	Beneficial Owner	93,130,000 H shares (Note 2)	18.39%

Name	Capacity and nature of interest	Number of shares held	Percentage of beneficial interests in the Company's share capital
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%
<i>Other persons</i>			
Mr. Zhang Xuguang	Beneficial owner	20,320,000 domestic shares and 20,320,000 H shares	8.02%

Name	Capacity and nature of interest	Number of shares held	Percentage of beneficial interests in the Company's share capital
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 liability company established in the PRC, which in turn is owned as to 75% by Mr. Xia Shilin. For the purposes of the SFO, Deqing Huisheng and Mr. Xia Shilin are each deemed to be interested in the 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 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 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 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 nine and three months ended 30 September 2020 have been restated to conform to 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. The current audit committee of the Company 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 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 nine months ended 30 September 2021 (2020: Nil).

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

Hangzhou City, the PRC, 12 November 2021

* *For identification purposes only*