



SHLD

升華蘭德

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

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

Stock Code: 8106

2020

Interim Report

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

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given the companies listed on GEM are usually small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

HIGHLIGHTS

- Reported a revenue of approximately RMB120,874,000 for the six months ended 30 June 2020, representing an increase of approximately 13.40% as compared with the corresponding period in 2019.
- Incurred a net loss of approximately RMB10,937,000 for the six months ended 30 June 2020, as compared with the net loss for the corresponding period in 2019 of approximately RMB3,169,000.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020.

The board (the “**Board**”) of Directors of the Company is pleased to present the interim report of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2020.

2020 INTERIM RESULTS

For the six months ended 30 June 2020, the Group recorded an unaudited revenue of approximately RMB120,874,000 (2019: RMB106,592,000), representing an increase of approximately RMB14,282,000 or approximately 13.40%, as compared with the revenue of the same period in 2019.

For the six months ended 30 June 2020, the Group recorded an unaudited net loss attributable to owners of the Company of approximately RMB10,937,000 (2019: RMB3,169,000).

INTERIM DIVIDEND

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

CONDENSED INTERIM FINANCIAL STATEMENTS

The unaudited condensed interim financial statements of the Group for the six months ended 30 June 2020 together with the unaudited figures for the corresponding period in 2019 are set out as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months and three months ended 30 June 2020

	Notes	(unaudited) Six months ended 30 June		(unaudited) Three months ended 30 June	
		2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Revenue	3	120,874	106,592	68,701	55,194
Cost of sales		(110,535)	(93,067)	(61,835)	(47,543)
Gross profit		10,339	13,525	6,866	7,651
Other operating income, net gains or losses		1,485	2,785	688	667
Distribution and selling expenses		(4,151)	(5,762)	(1,913)	(2,986)
General and administrative expenses		(15,530)	(12,399)	(4,990)	(2,384)
Research and development expenditure		(2,930)	(979)	(1,849)	(979)
Share of results of an associate		11	–	6	–
Finance costs		(168)	(307)	(61)	(163)
(Loss) profit before tax	4	(10,944)	(3,137)	(1,253)	1,806
Income tax expenses	5	(67)	(46)	(67)	(46)
(Loss) profit and total comprehensive (expense) income for the period		(11,011)	(3,183)	(1,320)	1,760
(Loss) profit and total comprehensive (expense) income for the period attributable to:					
Owners of the Company		(10,937)	(3,169)	(1,308)	1,739
Non-controlling interests		(74)	(14)	(12)	21
		(11,011)	(3,183)	(1,320)	1,760
(Loss) earnings per share					
Basic and diluted (RMB)	8	(2.16) cents	(0.63) cents	(0.26) cents	0.34 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	(unaudited) 30 June 2020 RMB'000	(audited) 31 December 2019 RMB'000
<i>Notes</i>		
Non-current assets		
Plant and equipment	549	729
Right-of-use assets	752	1,287
Intangible assets	775	925
Interest in an associate	6,645	6,634
Deferred tax assets	362	362
Goodwill	1,856	1,856
Other receivables	1,463	1,463
	12,402	13,256
Current assets		
Inventories	15,605	20,892
Trade receivables	45,804	52,560
Prepayments and other receivables	14,465	23,147
Contract assets	3,778	5,331
Financial assets at fair value through profit or loss	17,000	15,601
Bank balances and cash	23,650	32,337
	120,302	149,868

	<i>Notes</i>	(unaudited) 30 June 2020 RMB'000	(audited) 31 December 2019 RMB'000
Current liabilities			
Trade and other payables	10	27,128	41,405
Contract liabilities		3,390	2,433
Bank borrowings		3,000	8,000
Income tax payable		149	154
Lease liabilities		731	1,685
		34,398	53,677
Net current assets		85,904	96,191
Total assets less current liabilities		98,306	109,447
Non-current liabilities			
Lease liabilities		471	601
		97,835	108,846
Capital and reserves			
Paid-in capital		50,655	50,655
Reserves		45,900	56,837
Equity attributable to owners of the Company		96,555	107,492
Non-controlling interests		1,280	1,354
Total equity		97,835	108,846

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	(unaudited)	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Net cash outflow from operating activities	(2,100)	(26,730)
Net cash (outflow) inflow from investing activities	(1,413)	24,268
Net cash outflow from financing activities	(5,174)	(291)
Net decrease in cash and cash equivalents	(8,687)	(2,753)
Cash and cash equivalents at beginning of period	32,337	35,172
Cash and cash equivalents at end of period	23,650	32,419

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	(unaudited)						
	Paid-in capital	Share premium	Statutory surplus reserve	Accumulated losses	Equity attributable to owners of the Company	Non- controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2020	50,655	101,336	12,632	(57,131)	107,492	1,354	108,846
Net loss	-	-	-	(9,629)	(9,629)	(62)	(9,691)
Balance as at 31 March 2020	50,655	101,336	12,632	(66,760)	97,863	1,292	99,155
Net loss	-	-	-	(1,308)	(1,308)	(12)	(1,320)
Balance as at 30 June 2020	50,655	101,336	12,632	(68,068)	96,555	1,280	97,835
Balance as at 1 January 2019	50,655	101,336	11,515	(60,628)	102,878	2,213	105,091
Net loss	-	-	-	(4,908)	(4,908)	(35)	(4,943)
Balance as at 31 March 2019	50,655	101,336	11,515	(65,536)	97,970	2,178	100,148
Net profit	-	-	-	1,739	1,739	21	1,760
Balance as at 30 June 2019	50,655	101,336	11,515	(63,797)	99,709	2,199	101,908

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. BASIS OF PRESENTATION

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

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

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2019.

3. REVENUE AND SEGMENT INFORMATION

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

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

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

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

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

(a) Segment revenue and results

	Trading of hardware and computer software RMB'000	Provision of smart city solutions RMB'000	Provision of e-commerce supply chain services RMB'000	Provision of telecommuni- cation valued-added services RMB'000	Consolidated RMB'000
For the six months ended 30 June 2020 (unaudited)					
Segment revenue	64,951	2,092	52,195	1,636	120,874
Segment results	2,868	(11,620)	1,002	(214)	(7,964)
Unallocated expenses, net					(2,980)
Loss before tax					(10,944)
For the six months ended 30 June 2019 (unaudited)					
Segment revenue	51,844	17,766	33,639	3,343	106,592
Segment results	301	(910)	365	307	63
Unallocated expenses, net					(3,200)
Loss before tax					(3,137)

(b) Segment assets and liabilities

	Trading of hardware and computer software RMB'000	Provision of smart city solutions RMB'000	Provision of e-commerce supply chain services RMB'000	Provision of telecommuni- cation valued-added services RMB'000	Consolidated RMB'000
As at 30 June 2020 (unaudited)					
Segment assets	36,311	36,475	10,862	111	83,759
Unallocated assets					48,945
Total assets					132,704
Segment liabilities	18,262	11,048	1,094	110	30,514
Unallocated liabilities					4,355
Total liabilities					34,869
As at 31 December 2019 (audited)					
Segment assets	55,592	39,965	9,644	100	105,301
Unallocated assets					57,823
Total assets					163,124
Segment liabilities	24,429	14,448	4,673	288	43,838
Unallocated liabilities					10,440
Total liabilities					54,278

(c) Geographical information

Both revenue and non-current assets of the Group were derived from or located in the PRC. Accordingly, no geographical information is presented.

4. (LOSS) PROFIT BEFORE TAX

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

	(unaudited)		(unaudited)	
	Six months ended 30 June	2019	Three months ended 30 June	2019
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation and amortisation	344	471	169	220
Exchange (gain) loss	(437)	196	(212)	(467)

5. INCOME TAX EXPENSES

	(unaudited)		(unaudited)	
	Six months ended 30 June	2019	Three months ended 30 June	2019
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
PRC Enterprise Income Tax ("EIT")	67	46	67	46

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC enterprises for the relevant periods was 25% (2019: 25%). During the relevant periods, one of the subsidiaries of the Company was subject to EIT at a rate of 15% (2019: 15%) as it was classified as an Advanced and New Technology Enterprise (高新科技企業).

No provision for EIT has been made for the Group for the relevant periods (2019: Nil) as there was no assessable profits derived by the Group for the relevant periods (2019: Nil). The EIT charges for the relevant periods represented income tax charges incurred by the representative office set up in Hangzhou City by the subsidiary of the Company established in Hong Kong, pursuant to domestic tax law.

During the relevant periods, no provision for Hong Kong Profits Tax has been made for the subsidiary of the Company established in Hong Kong (2019: Nil) as it did not have any material assessable profits subject to Hong Kong Profits Tax for the relevant periods (2019: Nil).

6. INTERIM DIVIDEND

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

7. RESERVES

Other than those disclosed in the condensed consolidated statement of changes in equity, there were no movements in the reserves of the Group for the relevant periods in 2020 and 2019.

8. (LOSS) EARNINGS PER SHARE

The calculation of the basic loss per share for the six months ended 30 June 2020 is based on the net loss attributable to owners of the Company for the six months ended 30 June 2020 of approximately RMB10,937,000 (2019: RMB3,169,000) and approximately 506,546,000 shares (2019: 506,546,000 shares) in issue during the period.

The calculation of the basic loss per share for the three months ended 30 June 2020 is based on the net loss attributable to owners of the Company for the three months ended 30 June 2020 of approximately RMB1,308,000 (2019: profit of RMB1,739,000) and approximately 506,546,000 shares (2019: 506,546,000 shares) in issue during the period.

Diluted (loss) earnings per share were the same as basic (loss) earnings per share for the six months and the three months ended 30 June 2020 and 2019 as there were no potential ordinary shares existed during the relevant periods.

9. TRADE RECEIVABLES

	(unaudited) 30 June 2020 RMB'000	(audited) 31 December 2019 RMB'000
Trade receivables at amortised cost	47,350	54,497
Less: allowances for impairment losses	(1,546)	(1,937)
	45,804	52,560

There were no specific credit periods granted by the Group to the customers except for an average credit period of 30-90 days (year ended 31 December 2019: 30-90 days) to the trade customers under the trading of hardware and computer software segment. Aging analysis of the trade receivables net of allowances for impairment losses as at the end of reporting period, presented based on the invoice date which approximate to revenue recognition date is as follows:

	(unaudited) 30 June 2020 RMB'000	(audited) 31 December 2019 RMB'000
0 to 60 days	18,379	37,260
61 to 90 days	3,030	5,546
91 to 180 days	391	1,224
Over 180 days	24,004	8,530
	45,804	52,560

The Group does not hold any collateral over its trade receivables. Based on past experience, the management considers the unimpaired balances are fully recoverable as the relevant customers have a good track record and are of a good credit standing.

10. TRADE AND OTHER PAYABLES

	(unaudited) 30 June 2020 RMB'000	(audited) 31 December 2019 RMB'000
Trade payables	23,829	34,072
Other payables and accruals	3,299	7,333
	27,128	41,405

Aging analysis of the trade payables presented based on the invoice date is as follows:

	(unaudited)	(audited)
	30 June	31 December
	2020	2019
	RMB'000	RMB'000
Less than one year	15,440	29,720
Over one year but less than two years	5,368	753
Over two years but less than three years	436	1,624
More than three years	2,585	1,975
	23,829	34,072

MANAGEMENT DISCUSSION AND ANALYSIS

I. REVIEW OF OPERATIONS

1. Review of operating results for the period

(i) Overview

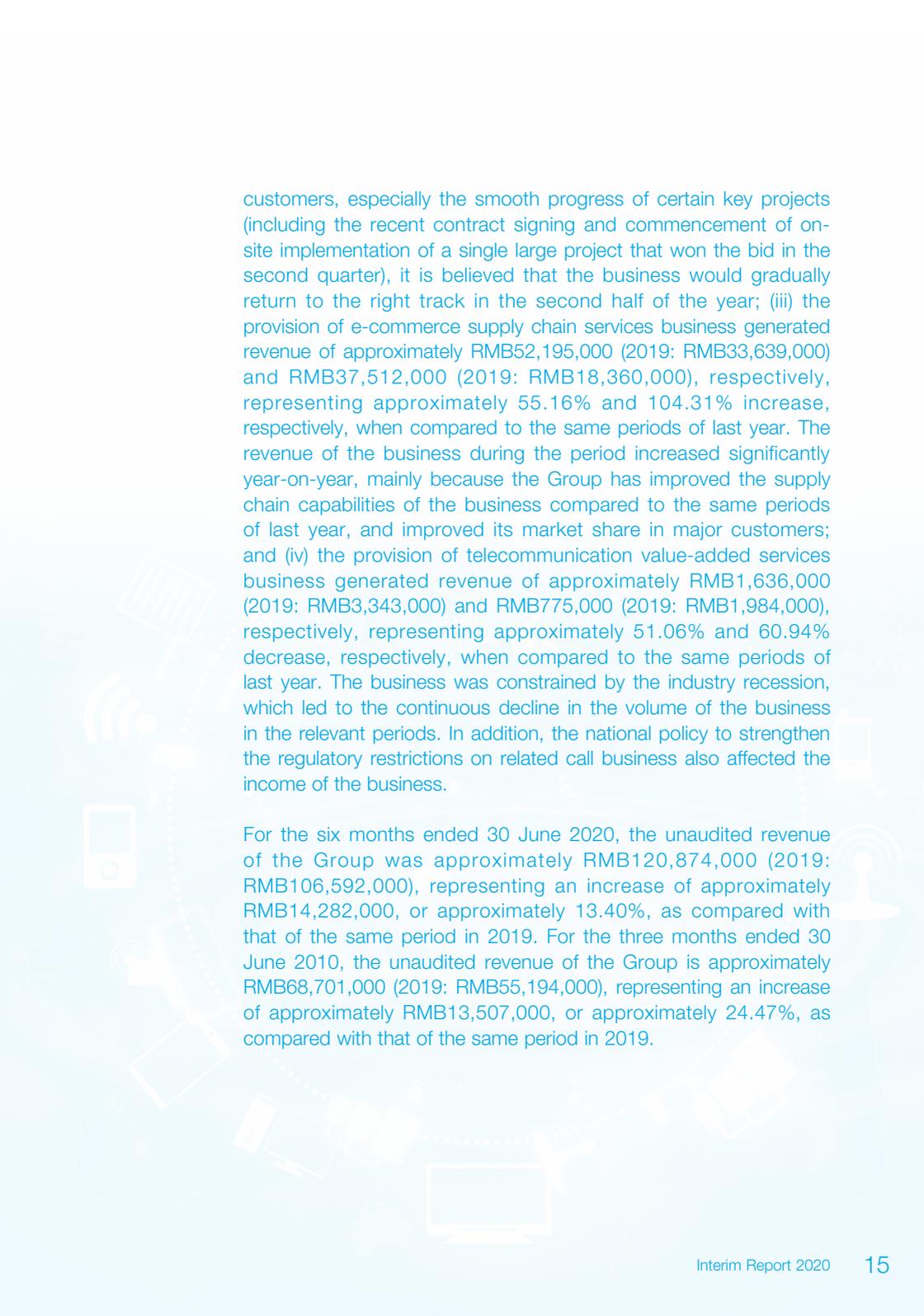
The Group is principally engaged in (i) the trading of hardware and computer software; (ii) the provision of smart city solutions; (iii) the provision of e-commerce supply chain services; and (iv) the provision of telecommunication value-added services.

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

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

(ii) Revenue

For the six months and three months ended 30 June 2020, (i) the trading of hardware and computer software business generated revenue of approximately RMB64,951,000 (2019: RMB51,844,000) and RMB28,946,000 (2019: RMB26,360,000), respectively, representing approximately 25.28% and 9.81% increase, respectively, when compared to the same periods of last year, which was mainly due to the gaining and completion of large orders from individual large customers by the Group in the relevant periods; (ii) the provision of smart city solutions business generated revenue of approximately RMB2,092,000 (2019: RMB17,766,000) and RMB1,468,000 (2019: RMB8,490,000), respectively, representing approximately 88.22% and 82.71% decrease, respectively, when compared to the same periods of last year. The business is currently focused on construction projects. Due to the differences in the contract amounts for the projects under construction and progress of the projects in each reporting period, there would be certain fluctuation in the amount of revenue recognised in the respective reporting periods. The Group is actively expanding operation services to enhance the stable income capability of the business. Also, during the relevant periods, due to the impact of the "Novel Pneumonia Coronavirus" epidemic, the progress of the implementation of various projects of this business was slower than expected, and there were fewer projects under construction in the first half of the year compared with the same period of last year. Therefore, the revenue of this business dropped sharply year-on-year. However, following the normal operations of the Group and



customers, especially the smooth progress of certain key projects (including the recent contract signing and commencement of on-site implementation of a single large project that won the bid in the second quarter), it is believed that the business would gradually return to the right track in the second half of the year; (iii) the provision of e-commerce supply chain services business generated revenue of approximately RMB52,195,000 (2019: RMB33,639,000) and RMB37,512,000 (2019: RMB18,360,000), respectively, representing approximately 55.16% and 104.31% increase, respectively, when compared to the same periods of last year. The revenue of the business during the period increased significantly year-on-year, mainly because the Group has improved the supply chain capabilities of the business compared to the same periods of last year, and improved its market share in major customers; and (iv) the provision of telecommunication value-added services business generated revenue of approximately RMB1,636,000 (2019: RMB3,343,000) and RMB775,000 (2019: RMB1,984,000), respectively, representing approximately 51.06% and 60.94% decrease, respectively, when compared to the same periods of last year. The business was constrained by the industry recession, which led to the continuous decline in the volume of the business in the relevant periods. In addition, the national policy to strengthen the regulatory restrictions on related call business also affected the income of the business.

For the six months ended 30 June 2020, the unaudited revenue of the Group was approximately RMB120,874,000 (2019: RMB106,592,000), representing an increase of approximately RMB14,282,000, or approximately 13.40%, as compared with that of the same period in 2019. For the three months ended 30 June 2020, the unaudited revenue of the Group is approximately RMB68,701,000 (2019: RMB55,194,000), representing an increase of approximately RMB13,507,000, or approximately 24.47%, as compared with that of the same period in 2019.

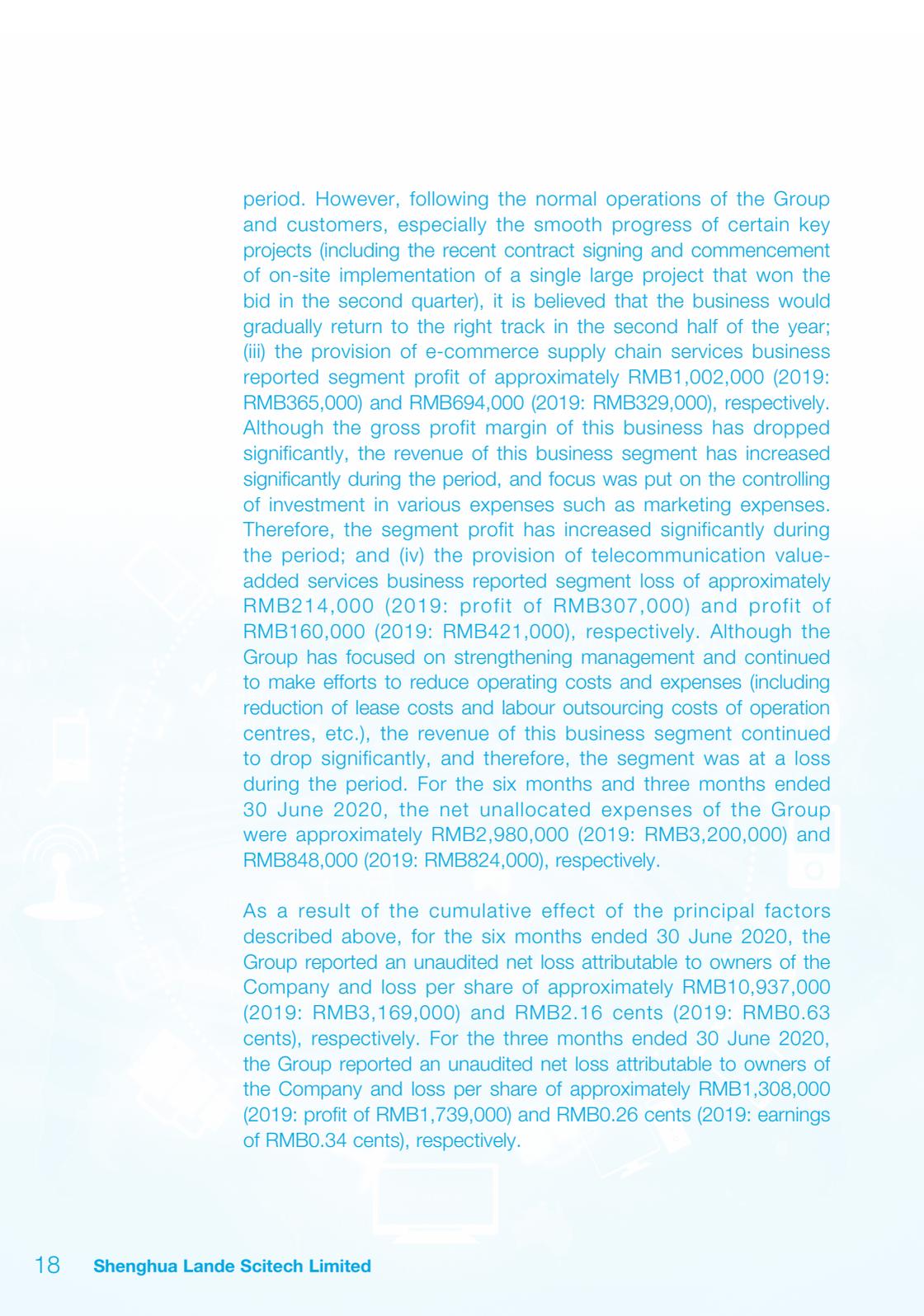
(iii) Gross profit margin

For the six months and three months ended 30 June 2020, (i) the gross profit margin of the trading of hardware and computer software business was approximately 8.50% (2019: 5.74%) and 12.29% (2019: 5.21%), respectively. Compared with the same periods of last year, the gross profit margin of this business has increased significantly. The Group strived to continuously adjust the sales strategy and sales structure of this business by increasing the sales of brands and products with relatively higher gross profit margin, while decreasing the sales of brands and products with low gross profit margin. At the same time (especially in the second quarter), 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 26.20% (2019: 27.18%) and 29.43% (2019: 34.89%), respectively. The gross profit margin of this business was affected by the gross profit margin of related projects carried out during the respective reporting periods, and there would be certain fluctuations; (iii) the gross profit margin of the provision of e-commerce supply chain services business was approximately 5.06% (2019: 8.41%) and 5.61% (2019: 9.35%), respectively. The gross profit margin of this business was greatly affected by customers. Due to the major internal adjustments made by the major customers of this business, their control of the cross-border e-commerce supply chain has been further strengthened. As a result, the Group reduced the business gross profit margin in order to maintain the market share of this business; and (iv) the gross profit margin of the provision of telecommunication value-added services business was approximately 99.88% (2019: 86.51%) and 99.87% (2019: 80.59%), respectively. The business achieved a slight increase in the gross profit margin for the period by controlling costs.

The gross profit margin of the Group for the six months and three months ended 30 June 2020 was approximately 8.55% (2019: 12.69%) and 9.99% (2019: 13.86%), respectively. The Group's consolidated gross profit margin decreased considerably when comparing with the same periods of last year. While the Group's total business revenue for the period increased slightly year-on-year, the revenue from the provision of smart city solutions business with high gross profit margin declined significantly (the business's revenue contribution ratio decreased significantly) and the revenue from the trading of hardware and computer software business and provision of e-commerce supply chain services business with relatively lower profit margin has grown significantly, leading to a substantial drop in the overall gross profit margin. The Group is working hard to adjust its business structure and product structure. It will consider business expansion while taking into account business gross profit margin in order to maximise the overall benefits of the Group.

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

For the six months and three months ended 30 June 2020, (i) the trading of hardware and computer software business reported segment profit of approximately RMB2,868,000 (2019: RMB301,000) and RMB2,744,000 (2019: RMB168,000). This business segment won and completed large orders from individual large customers during the relevant periods to increase business revenue. Also, during the period (especially in the second quarter), the Group focused on developing direct customers in this business to increase the overall business gross profit margin. As a result, the segment profit of the business increased significantly; (ii) the provision of smart city solutions business reported segment loss of approximately RMB11,620,000 (2019: RMB910,000) and RMB4,003,000 (2019: profit of RMB1,711,000), respectively. During the relevant periods, due to the impact of the "Novel Pneumonia Coronavirus" epidemic, the progress of the implementation of various projects of this business segment was slower than expected, and there were fewer projects under construction in the first half of the year compared with the same period of last year. Therefore, the revenue of this business dropped sharply year-on-year, and the main cost of this business was fixed labour costs, which led to a substantial increase in segment loss during the



period. However, following the normal operations of the Group and customers, especially the smooth progress of certain key projects (including the recent contract signing and commencement of on-site implementation of a single large project that won the bid in the second quarter), it is believed that the business would gradually return to the right track in the second half of the year; (iii) the provision of e-commerce supply chain services business reported segment profit of approximately RMB1,002,000 (2019: RMB365,000) and RMB694,000 (2019: RMB329,000), respectively. Although the gross profit margin of this business has dropped significantly, the revenue of this business segment has increased significantly during the period, and focus was put on the controlling of investment in various expenses such as marketing expenses. Therefore, the segment profit has increased significantly during the period; and (iv) the provision of telecommunication value-added services business reported segment loss of approximately RMB214,000 (2019: profit of RMB307,000) and profit of RMB160,000 (2019: RMB421,000), respectively. Although the Group has focused on strengthening management and continued to make efforts to reduce operating costs and expenses (including reduction of lease costs and labour outsourcing costs of operation centres, etc.), the revenue of this business segment continued to drop significantly, and therefore, the segment was at a loss during the period. For the six months and three months ended 30 June 2020, the net unallocated expenses of the Group were approximately RMB2,980,000 (2019: RMB3,200,000) and RMB848,000 (2019: RMB824,000), respectively.

As a result of the cumulative effect of the principal factors described above, for the six months ended 30 June 2020, the Group reported an unaudited net loss attributable to owners of the Company and loss per share of approximately RMB10,937,000 (2019: RMB3,169,000) and RMB2.16 cents (2019: RMB0.63 cents), respectively. For the three months ended 30 June 2020, the Group reported an unaudited net loss attributable to owners of the Company and loss per share of approximately RMB1,308,000 (2019: profit of RMB1,739,000) and RMB0.26 cents (2019: earnings of RMB0.34 cents), respectively.

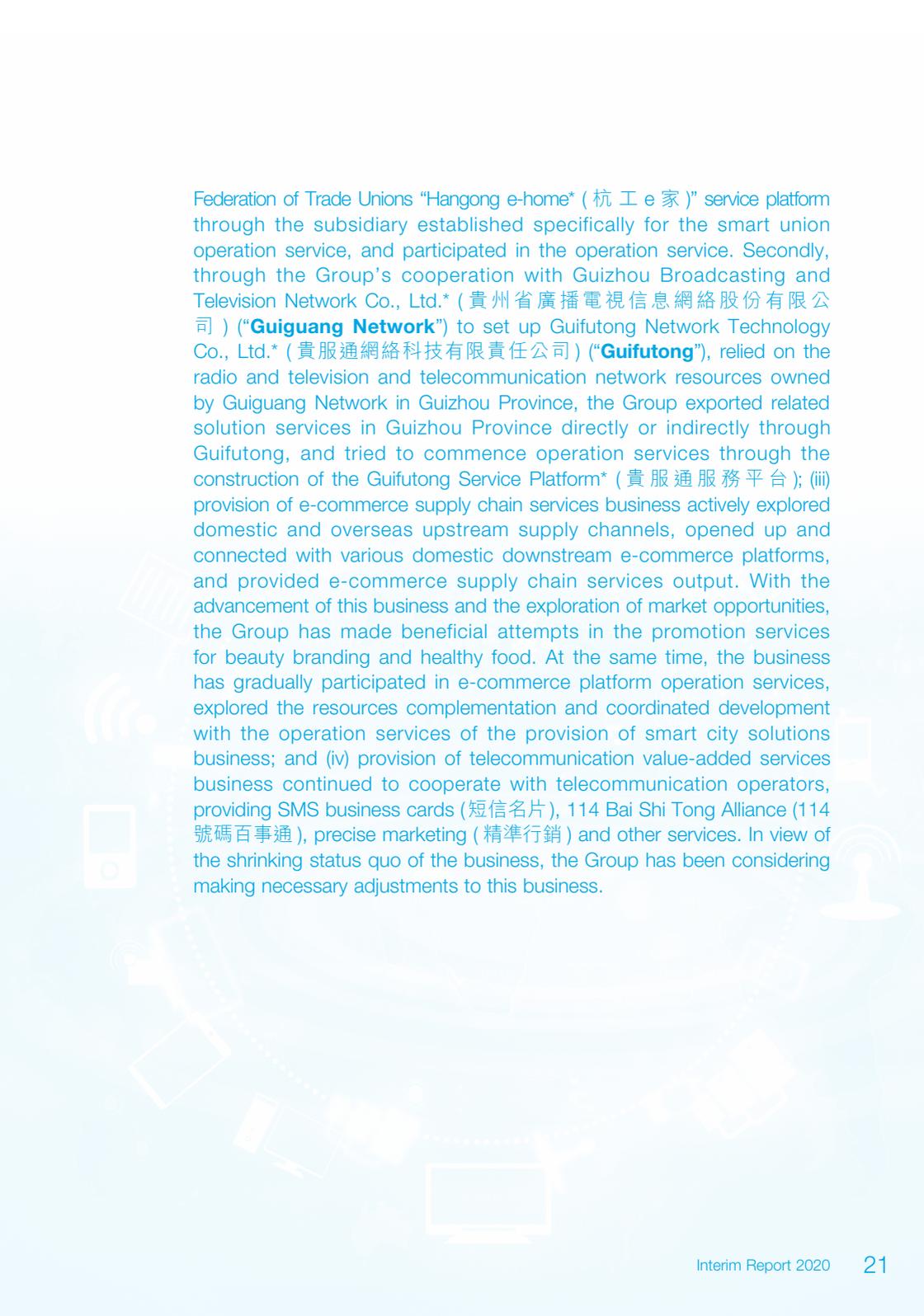
Though the financial performance of the Group for the six months ended 30 June 2020 was not favourable, the Board believes that there will be no material adverse impact on the Group's business operations and the Group maintains a stable financial position.

2. Impact of “Novel Pneumonia Coronavirus” epidemic

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

3. Business and product development

During the reporting period, the Group's (i) trading of hardware and computer software business continued to adjust its sales strategy and sales structure on the premise of effective control of business risks, increasing sales of brands and products with higher gross profit margin. In the period, in consideration of reducing business risks, the Group increased the business revenue by securing and completing large orders from individual large customers. In the period (especially in the second quarter), the business focused on developing direct customers to increase the overall business gross profit margin, ensuring the overall stable development of the business; (ii) provision of smart city solutions business actively grasped the development opportunities of domestic smart cities construction and strived to promote the overall performance of the Group's business. On the one hand, the Group maintained good cooperative relationship with existing customers, provided continuous software system development services and value-added services for the Digital Citizen and Citizen Card Service Platform* (數字市民及市民卡服務平台) in local cities, and provided pre-consultation and program design services to new city customers in and outside Zhejiang Province, which laid a good foundation for obtaining new project orders. Among them, the bid for a project contract of approximately RMB18,860,000 in a certain city has been successfully won in the second quarter. On the other hand, while providing the implementation and development services for the Digital Citizen and Citizen Card Service Platform* (數字市民及市民卡服務平台), leveraging the development of technologies such as mobile Internet and big data, the Group vigorously innovated to provide new smart city solutions services and solution development services in other segments (such as smart union, smart communities and smart housekeeping, etc.). In addition, the Group strived to output operation services. Firstly, the Group provided software development services to the Hangzhou



Federation of Trade Unions “Hangong e-home* (杭工 e 家)” service platform through the subsidiary established specifically for the smart union operation service, and participated in the operation service. Secondly, through the Group’s cooperation 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**”) to set up Guifutong Network Technology Co., Ltd.* (貴服通網絡科技有限責任公司) (“**Guifutong**”), relied on the radio and television and telecommunication network resources owned by Guiguang Network in Guizhou Province, the Group exported related solution services in Guizhou Province directly or indirectly through Guifutong, and tried to commence operation services through the construction of the Guifutong Service Platform* (貴服通服務平台); (iii) provision of e-commerce supply chain services business actively explored domestic and overseas upstream supply channels, opened up and connected with various domestic downstream e-commerce platforms, and provided e-commerce supply chain services output. With the advancement of this business and the exploration of market opportunities, the Group has made beneficial attempts in the promotion services for beauty branding and healthy food. At the same time, the business has gradually participated in e-commerce platform operation services, explored the resources complementation and coordinated development with the operation services of the provision of smart city solutions business; and (iv) provision of telecommunication value-added services business continued to cooperate with telecommunication operators, providing SMS business cards (短信名片), 114 Bai Shi Tong Alliance (114 號碼百事通), precise marketing (精準行銷) and other services. In view of the shrinking status quo of the business, the Group has been considering making necessary adjustments to this business.

4. Investment and cooperation

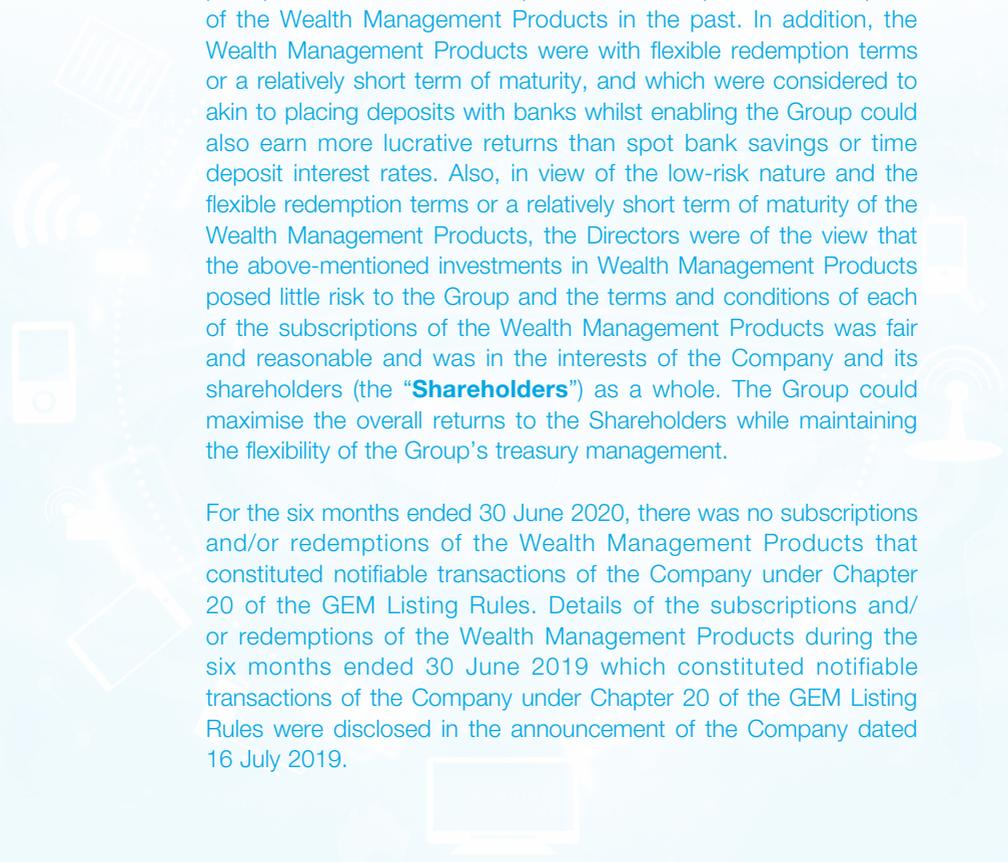
(i) *Investment in an associate*

As at 30 June 2020, the Group had an investment in an associate, which represented its 33.00% interest in the registered capital of Guifutong, a PRC limited company principally engaged in the provision of smart city solutions (involving mainly the construction and operation of the Guifutong Service Platform* (貴服通服務平台) and the related value-added application service platform and big data platform). As described above, the Group expected to export related solution services in Guizhou Province through Guifutong, and tried to commence operation services through the construction of the Guifutong Service Platform* (貴服通服務平台), enhancing its development in mobile Internet services.

As at 30 June 2020, the carrying value of the Group's interest in Guifutong amounted to approximately RMB6,645,000 (31 December 2019: RMB6,634,000), representing approximately 5.01% (31 December 2019: 4.07%) of its total assets. For the six months and three months ended 30 June 2020, the Group's share of profits of Guifutong amounted to approximately RMB11,000 (2019: Nil) and RMB6,000 (2019: Nil), respectively.

(ii) *Investments in wealth management products*

Since the year ended 31 December 2018 and during the reporting period, the Group subscribed for and held various short-term investments, from time to time, in the wealth management products (the "**Wealth Management Products**") issued by Bank of China Limited. The Wealth Management Products had no fixed maturity period and were not principal protected nor with pre-determined or guaranteed return. The underlying investments of the Wealth Management Products were primarily (i) money market instruments (such as various types of deposits, certificates of deposit, pledged repo, etc.); (ii) fixed income securities (such as fixed income products like corporate and government bonds); and (iii) non-standardised assets that met regulatory requirements and other financial investment instruments approved by the regulatory authorities (such as trust loans, acceptance bills and/or letters of credit). The expected annualised rate of return of the Wealth Management Products subscribed during the period was around 2.50%-2.80% (2019: 2.00%-3.85%), which was relatively higher than the comparable market bank deposit interest rates.



The subscriptions of the Wealth Management Products were made for treasury management purpose to maximise the return on the unutilised funds of the Group after taking into account, among others, the level of risk, return on investment and term to maturity. The Group generally subscribed for standard short-term wealth management products issued by creditworthy banks with its temporary unused funds, on a revolving basis. Although the Wealth Management Products were marketed as wealth management products which were not principal protected nor with pre-determined or guaranteed return, the underlying investments were considered to have relatively low-risk and be also in line with the internal risk management, cash management and investment policies of the Group as the Group had totally recovered the principal and received the expected returns upon the redemption of the Wealth Management Products in the past. In addition, the Wealth Management Products were with flexible redemption terms or a relatively short term of maturity, and which were considered to akin to placing deposits with banks whilst enabling the Group could also earn more lucrative returns than spot bank savings or time deposit interest rates. Also, in view of the low-risk nature and the flexible redemption terms or a relatively short term of maturity of the Wealth Management Products, the Directors were of the view that the above-mentioned investments in Wealth Management Products posed little risk to the Group and the terms and conditions of each of the subscriptions of the Wealth Management Products was fair and reasonable and was in the interests of the Company and its shareholders (the “**Shareholders**”) as a whole. The Group could maximise the overall returns to the Shareholders while maintaining the flexibility of the Group’s treasury management.

For the six months ended 30 June 2020, there was no subscriptions and/or redemptions of the Wealth Management Products that constituted notifiable transactions of the Company under Chapter 20 of the GEM Listing Rules. Details of the subscriptions and/or redemptions of the Wealth Management Products during the six months ended 30 June 2019 which constituted notifiable transactions of the Company under Chapter 20 of the GEM Listing Rules were disclosed in the announcement of the Company dated 16 July 2019.

As at 30 June 2020, the Group's investments in the Wealth Management Products were classified as financial assets at fair value through profit or loss in its consolidated statement of financial position, and amounted to approximately RMB17,000,000 (31 December 2019: RMB15,601,000), representing approximately 12.81% (31 December 2019: 9.56%) of its total assets. For the six months and three months ended 30 June 2020, the gain realised by the Group from the Wealth Management Products amounted to approximately RMB253,000 (2019: RMB362,000) and RMB132,000 (2019: RMB136,000), respectively.

(iii) Other business investment and cooperation

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

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

5. Employees information

As at 30 June 2020, the Group had approximately 153 (31 December 2019: 176) employees in total. The total staff costs of the Group for the reporting period amounted to approximately RMB16,589,000 (2019: RMB18,120,000).

The Group's human resources management strategy is formulated in accordance with the Group's guidelines of development strategy on one hand and with the goals stipulated in the long term vision planning as its direction on the other. At the same time, an incentive scheme will be linked with other human resources management programs and promote each other. The Group opened wide for recruitment channels, set up mechanisms for attracting human resources, grasped for the development of talent usability and formulated a good system in people deployment and incubation. The Group implemented an annual income target system which linked up staff performance appraisal with compensation system.

Target annual income was confirmed and released in accordance with performance appraisal result. After a total assessment on employee's job performance, capability and work attitude, an integrated evaluation could be established for the employee which would be used as a referencing standard. Through the close integration of the two systems, the employees were effectively motivated and the smooth attainment of the Group's goals was assured.

The Group attached great importance to staff development and ability improvement and provided them with various training opportunities on qualities and skills. In this way, employees would be more suitable for the Group's job requirements, and at the same time they would be fully developed in their careers.

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

II. REVIEW OF FINANCIAL PERFORMANCE AND POSITIONS

1. Financial performance

- For the six months and three months ended 30 June 2020, the Group's revenue amounted to approximately RMB120,874,000 (2019: RMB106,592,000) and RMB68,701,000 (2019: RMB55,194,000), respectively.
- For the six months and three months ended 30 June 2020, the Group achieved a gross profit margin of approximately 8.55% (2019: 12.69%) and 9.99% (2019: 13.86%), respectively.
- For the six months ended 30 June 2020, the Group had a net loss attributable to owners of the Company of approximately RMB10,937,000 (2019: RMB3,169,000). For the three months ended 30 June 2020, the Group had a net loss attributable to owners of the Company of approximately RMB1,308,000 (2019: profit of RMB1,739,000).
- For the six months ended 30 June 2020, the Group had a loss per share of approximately RMB2.16 cents (2019: RMB0.63 cents). For the three months ended 30 June 2020, the Group had a loss per share of approximately RMB0.26 cents (2019: earnings of RMB0.34 cents).

2. Financial positions

- The Group maintained creditable financial conditions. For the six months ended 30 June 2020, the Group was mainly financed by proceeds generated from daily operations, other internal resources and bank borrowings.
- As at 30 June 2020, the Group had inventories of approximately RMB15,605,000 (31 December 2019: RMB20,892,000). The Group focused on controlling the inventory balance of the trading of hardware and computer software business in the period, so the inventories balance at the end of the reporting period decreased significantly.
- As at 30 June 2020, the Group had trade receivables of approximately RMB45,804,000 (31 December 2019: RMB52,560,000). The decrease in the Group's trade receivables during the reporting period was mainly attributable to the decrease in trade receivables under the trading of hardware and computer software business segment.
- As at 30 June 2020, the Group had total prepayments and other receivables of approximately RMB15,928,000 (31 December 2019: RMB24,610,000). The Group focused on controlling the inventory balance of the trading of hardware and computer software business in the period, so the prepayments balance at the end of the reporting period decreased significantly.
- As at 30 June 2020, the Group had contract assets of approximately RMB3,778,000 (31 December 2019: RMB5,331,000). The decrease in the Group's contract assets during the reporting period was mainly attributable to the decrease in contract assets recognised under the provision of smart city solutions business segment.

- As at 30 June 2020, the Group's total bank balances and cash and financial assets at fair value through profit or loss (which represented the Wealth Management Products as detailed above) amounted to approximately RMB40,650,000 (31 December 2019: RMB47,938,000). The total bank balances and cash and financial assets at fair value through profit or loss to total assets and net asset ratios as at 30 June 2020 were approximately 30.63% (31 December 2019: 29.39%) and 41.55% (31 December 2019: 44.04%), respectively.
- As at 30 June 2020, the Group had trade and other payables of approximately RMB27,128,000 (31 December 2019: RMB41,405,000). The Group focused on controlling the inventory balance of the trading of hardware and computer software business in the period, so the trade payables balance at the end of the reporting period decreased significantly.
- As at 30 June 2020, the Group had contract liabilities of approximately RMB3,390,000 (31 December 2019: RMB2,433,000). The increase in the Group's contract liabilities during the reporting period was mainly attributable to the increase in contract liabilities recognised under the trading of hardware and computer software business segment.
- As at 30 June 2020, the Group had total assets of approximately RMB132,704,000 (31 December 2019: RMB163,124,000).
- As at 30 June 2020, the Group had total liabilities of approximately RMB34,869,000 (31 December 2019: RMB54,278,000).
- As at 30 June 2020, the Group had equity attributable to owners of the Company of approximately RMB96,555,000 (31 December 2019: RMB107,492,000).
- As at 30 June 2020, the Group had non-controlling interests of approximately RMB1,280,000 (31 December 2019: RMB1,354,000).

- As at 30 June 2020, the Group had a gearing ratio (i.e. the ratio of total liabilities to total assets) of approximately 26.28% (31 December 2019: 33.27%).
- As at 30 June 2020, the Group had a net current ratio (i.e. the ratio of current liabilities to current assets) of approximately 28.59% (31 December 2019: 35.82%).
- The Group's exposure to foreign currency risk relates principally to its bank balances, trade receivables, other receivables, contract assets and trade and other payables denominated in foreign currencies other than the functional currency of the relevant group entity. The Group currently does not have a foreign currency hedging policy. However, the Directors continuously monitor the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.
- As at 30 June 2020, none of the Group's assets were pledged (31 December 2019: Nil).

III. FUTURE PROSPECTS

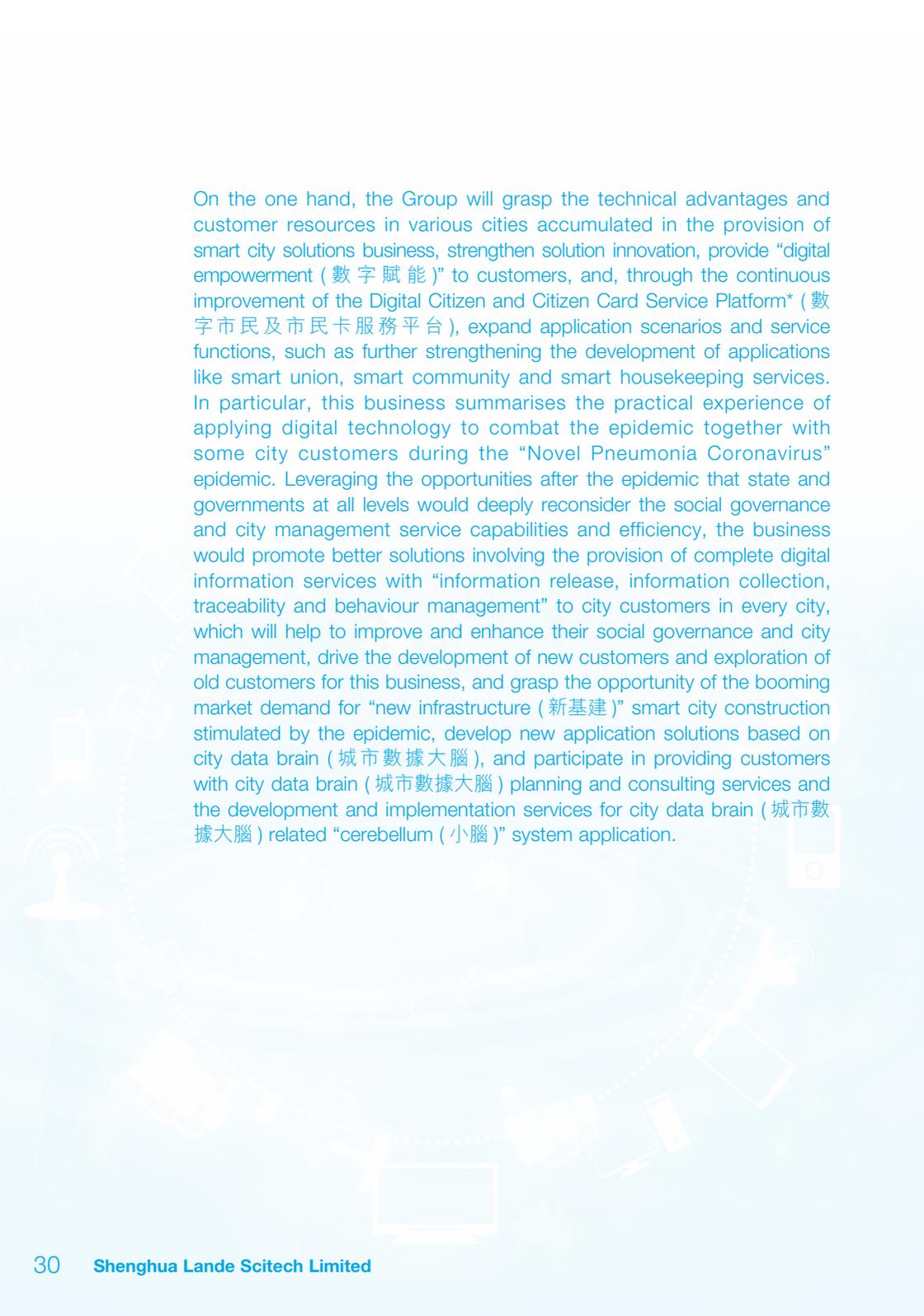
1. Order backlog/sales contracts

During the reporting period, the Group's trading of hardware and computer software business maintained close cooperation with well-known hardware and software vendors in the industry, launched sales of computer storage servers and other products and services, sought to increase the proportion of system integration service contract revenue, and continued to gradually improve the business income structure and profitability. The construction service contracts of the Group's provision of smart city solutions business are being implemented in many places in and outside Zhejiang Province as planned. Although the progress has slowed down in the first and second quarters as affected by the "Novel Pneumonia Coronavirus" epidemic, following the smooth progress of certain key projects (including the recent contract signing and commencement of on-site implementation of a single large project that won the bid in the second quarter), it is expected to basically return to normal in the second half of the year. The Group had established good cooperative relationships with local city customers and was exploring customer needs and providing smart city solution products and services such as the Digital Citizen and Citizen Card Service Platform*

(數字市民及市民卡服務平台), etc.. Business orders and contracts in many other cities in the country were explored, which laid a foundation for the subsequent continuous generation of new contracts and orders. After more than a year of exploration, the Group's e-commerce supply chain services business has established cooperative relationships with many well-known domestic e-commerce platforms, domestic and foreign brand manufacturers and merchants, and will further actively explore upstream and downstream channel cooperation to seek more business cooperation orders, especially for more upstream quality product resources. The cooperations between the Group's telecommunication value-added services business and telecommunication operators are within the validity period of the contracts. At the same time, they have also maintained access and implementation in many places. However, due to market demand and policy restrictions, the business has not been able to open up the transition situation, and it is necessary to consider giving necessary adjustments.

2. Prospects of new business and new products

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



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

On the other hand, the Group will continue to cultivate operation services in order to provide a variety of convenient services and value-added services to a broad customer base of the Digital Citizen and Citizen Card Service Platform* (數字市民及市民卡服務平台) to maximise business value. Firstly, continue to promote operation services output in the smart union area. While providing system solution development services, enhance the value-added service capabilities, and provide personalised value-added services and goods for union organisations and members. Secondly, seize the opportunity of establishing Guifutong and building of Guifutong Service Platform* (貴服通服務平台), to provide which with value-added services in the creation of “Smart and Healthy Living Room” (智慧健康客廳), and to seek opportunities for providing operation services. Thirdly, encourage the provision of e-commerce supply chain services business to provide operation services for e-commerce platforms, further accumulate resources of upstream and downstream channels to master product and service capabilities with sufficient profit potential, and actively promote the coordinated development and resources complementation with the operation services of the provision of smart city solutions business.

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

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

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INFORMATION

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

Mr. Chen Ping

With effective from 14 August 2020, Mr. Chen Ping was redesignated as the non-executive Director and ceased to act as the compliance officer of the Company.

Mr. Xu Jianfeng

With effective from 14 August 2020, Mr. Xu Jianfeng was appointed as the compliance officer of the Company.

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

Save as disclosed below, as at 30 June 2020, none of the Directors, supervisors or chief executives of the Company had an interest in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange:

Long position in shares

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

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

For the six months ended 30 June 2020, none of the Directors, supervisors or chief executives of the Company was granted options to subscribe for the shares of the Company (2019: Nil). As at 30 June 2020, none of the Directors, supervisors or chief executives of the Company or any of their spouses and children under 18 years of age had any interest in, or had been granted any interest in, or had been granted, or exercised, had any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company or to acquire the shares of the Company (2019: Nil).

SHARE OPTION SCHEME

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

INTEREST DISCLOSABLE UNDER THE SFO AND THE SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, so far as was known to any Directors, supervisors or chief executives of the Company, as at 30 June 2020, there were no persons or companies (other than the interests as disclosed above in respect of the Directors) who had equity interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO; or who were deemed to be directly or indirectly interested in 10% or more of the nominal value of any class of share capital of the Company carrying rights to vote in all circumstances at general meetings of the Company; or who were Shareholders as recorded in the register maintained under section 336 of the SFO:

Long position in shares

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

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	217,126,930 domestic shares (<i>Note 1</i>) and 49,000,000 H shares (<i>Note 2</i>)	52.54%
Mr. Xia Shilin	Interest of a controlled corporation	217,126,930 domestic shares (<i>Note 1</i>) and 49,000,000 H shares (<i>Note 2</i>)	52.54%
Ms. Qian Xiaomei	Interest of spouse	217,126,930 domestic shares and 49,000,000 H shares (<i>Note 3</i>)	52.54%
<i>Other persons</i>			
Mr. Wong Nga Chi	Beneficial owner	47,000,000 H shares	9.28%

Name	Capacity and nature of interest	Number of shares held	Percentage of beneficial interests in the Company's share capital
Ms. Yin Cailian	Interest of spouse	47,000,000 H shares (Note 4)	9.28%
Ms. Ko Chiu Yu	Beneficial owner	23,700,000 H shares	4.68%
Mr. Fong For	Beneficial owner	16,560,000 H shares	3.27%

Notes:

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

COMPETING INTERESTS

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

AUDIT COMMITTEE

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

The condensed interim financial statements and the interim report of the Group for the six months ended 30 June 2020 have not been audited or reviewed by the Company's auditor, but have been reviewed by the Company's audit committee.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2020 (2019: Nil).

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2020, the Company had adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Company confirmed that all Directors had complied with the required standard of dealings and code of conduct regarding securities transactions by Directors throughout the six months ended 30 June 2020.

CORPORATE GOVERNANCE

The Company has complied with all code provisions as set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 15 of the GEM Listing Rules, except for the deviation from CG Code Provision A.2.1 as explained below, throughout the six months ended 30 June 2020.

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

Mr. Qi Jinsong is both the chairman and chief executive officer of the Company who is responsible for managing the Board and Group business. The Board considers that, with the present Board structure and scope of business of the Group, vesting the roles of the chairman and chief executive officer in the same person enables more effective and efficient planning and implementation of business plans and the Board believes that the balance of power and rights is adequately ensured. However, the Board will continue to review regularly the effectiveness of the Group’s corporate governance structure to assess whether the separation of the positions of the chairman and chief executive officer is necessary.

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

Huzhou City, the PRC, 14 August 2020

* For identification purposes only