



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

Interim 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 (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 RMB84,540,000 for the six months ended 30 June 2021, representing an approximately 29.10% 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 RMB9,844,000 for the six months ended 30 June 2021, comparing to a net loss attributable to owners of the Company from continuing operations of approximately RMB10,525,000 (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 six months ended 30 June 2021, comparing to a net loss attributable to owners of the Company from discontinued operation of approximately RMB412,000 (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 RMB9,844,000 for the six months ended 30 June 2021, comparing to a net loss attributable to owners of the Company from continuing and discontinued operations of approximately RMB10,937,0000 incurred for the same period of the year 2020.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2021.

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 2021.

2021 INTERIM RESULTS

For the six months ended 30 June 2021, the Group recorded an unaudited revenue from continuing operations of approximately RMB84,540,000 (2020: RMB119,238,000 (restated)), representing a decrease of approximately RMB34,698,000, or approximately 29.10%, as compared with the unaudited revenue from continuing operations for the same period of the year 2020.

For the six months ended 30 June 2021, the Group recorded an unaudited net loss attributable to owners of the Company from continuing operations of approximately RMB9,844,000 (2020: RMB10,525,000 (restated)).

For the six months ended 30 June 2021, the Group had not recorded any unaudited results attributable to owners of the Company from discontinued operation (2020: loss of RMB412,000 (restated)).

For the six months ended 30 June 2021, the Group recorded an unaudited net loss attributable to owners of the Company from continuing and discontinued operations of approximately RMB9,844,000 (2020: RMB10,937,000).

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2021 (2020: Nil).

CONDENSED INTERIM FINANCIAL STATEMENTS

The unaudited condensed interim financial statements of the Group for the six months ended 30 June 2021, together with the unaudited comparative figures for the corresponding period in 2020, are set out as follows.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the six months and three months ended 30 June 2021

	Notes	(unaudited) Six months ended 30 June		(unaudited) Three months ended 30 June	
		2021 RMB'000	2020 RMB'000 (Restated)	2021 RMB'000	2020 RMB'000 (Restated)
Continuing operations					
Revenue	3	84,540	119,238	47,182	67,926
Cost of sales		(76,580)	(110,534)	(42,072)	(61,835)
Gross profit		7,960	8,704	5,110	6,091
Other operating income, net gains or losses	4	1,932	1,464	(227)	669
Distribution and selling expenses		(2,280)	(3,128)	(1,507)	(1,472)
General and administrative expenses		(16,060)	(14,412)	(4,874)	(4,565)
Research and development expenditure		(3,471)	(2,929)	(2,009)	(1,848)
Share of result of an associate		-	11	-	6
Finance costs		(135)	(168)	(135)	(61)
Loss before tax		(12,054)	(10,458)	(3,642)	(1,180)
Income tax	5	(247)	(67)	(217)	(67)
Loss and total comprehensive expense for the period from continuing operations	6	(12,301)	(10,525)	(3,859)	(1,247)
Discontinued operation	7				
Loss for the period from discontinued operation		-	(486)	-	(73)
Loss and total comprehensive expense for the period		(12,301)	(11,011)	(3,859)	(1,320)

	Notes	(unaudited)		(unaudited)	
		Six months ended 30 June	2020	Three months ended 30 June	2020
		2021	2020	2021	2020
		RMB'000	RMB'000	RMB'000	RMB'000
			(Restated)		(Restated)
Loss and total comprehensive expense for the period attributable to owners of the Company					
– from continuing operations		(9,844)	(10,525)	(1,556)	(1,247)
– from discontinued operation		-	(412)	-	(61)
Loss and total comprehensive expense for the period attributable to owners of the Company		(9,844)	(10,937)	(1,556)	(1,308)
Loss and total comprehensive expense for the period attributable to non-controlling interests					
– from continuing operations		(2,457)	-	(2,303)	-
– from discontinued operation		-	(74)	-	(12)
Loss and total comprehensive expense for the period attributable to non-controlling interests		(2,457)	(74)	(2,303)	(12)
		(12,301)	(11,011)	(3,859)	(1,320)
Loss per share	10				
From continuing and discontinued operations					
Basic and diluted (RMB)		(1.94) cents	(2.16) cents	(0.31) cents	(0.26) cents
From continuing operations					
Basic and diluted (RMB)		(1.94) cents	(2.08) cents	(0.31) cents	(0.25) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	<i>Notes</i>	(unaudited) 30 June 2021 RMB'000	(audited) 31 December 2020 RMB'000
Non-current assets			
Plant and equipment		1,423	514
Deposit paid for acquisition of plant and equipment		–	233
Right-of-use assets		9,316	3,286
Intangible assets		493	625
Interest in an associate		–	6,759
Deferred tax assets		587	587
Goodwill		1,875	1,856
Other receivables		618	618
		14,312	14,478
Current assets			
Inventories		13,836	8,642
Trade receivables	11	40,132	43,438
Prepayments and other receivables		16,346	10,059
Contract assets		12,803	12,307
Financial assets at fair value through profit or loss		18,575	25,500
Bank balances and cash		15,800	28,253
		117,492	128,199

		(unaudited) 30 June 2021 RMB'000	(audited) 31 December 2020 RMB'000
	<i>Notes</i>		
Current liabilities			
Trade and other payables	12	16,531	22,228
Contract liabilities		468	4,864
Income tax payable		–	27
Lease liabilities		3,273	2,193
		20,272	29,312
Net current assets		97,220	98,887
Total assets less current liabilities		111,532	113,365
Non-current liabilities			
Lease liabilities		5,782	848
		105,750	112,517
Capital and reserves			
Paid-in capital		50,655	50,655
Reserves		52,018	61,862
Equity attributable to owners of the Company		102,673	112,517
Non-controlling interests		3,077	–
Total equity		105,750	112,517

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	(unaudited)						
	Paid-in capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Accumulated losses RMB'000	Equity attributable to owners of the Company RMB'000	Non- controlling interests RMB'000	Total RMB'000
Balance as at 1 January 2021	50,655	101,336	12,804	(52,278)	112,517	-	112,517
Capital contribution	-	-	-	-	-	2,954	2,954
Net loss	-	-	-	(8,288)	(8,288)	(154)	(8,442)
Balance as at 31 March 2021	50,655	101,336	12,804	(60,566)	104,229	2,800	107,029
Capital contribution	-	-	-	-	-	2,580	2,580
Net loss	-	-	-	(1,556)	(1,556)	(2,303)	(3,859)
Balance as at 30 June 2021	50,655	101,336	12,804	(62,122)	102,673	3,077	105,750
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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	(unaudited) Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Net cash outflow from operating activities	(31,700)	(2,100)
Net cash inflow (outflow) from investing activities	13,717	(1,413)
Net cash inflow (outflow) from financing activities	5,530	(5,174)
Net decrease in cash and cash equivalents	(12,453)	(8,687)
Cash and cash equivalents at beginning of period	28,253	32,337
Cash and cash equivalents at end of period	15,800	23,650

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

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 (the "**H Shares**") were listed on GEM on 3 May 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 2020.

3. REVENUE AND SEGMENT INFORMATION

Continuing operations

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

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

Discontinued operation

An operating segment regarding the provision of telecommunication value-added services was discontinued during the year ended 31 December 2020. The segment information reported in this note did not include any amounts for this discontinued operation, which was described in more detail in note 7.

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

(i) Segment revenues and results

Continued operations

	(unaudited)						Consolidated	
	Trading of hardware and computer software		Provision of smart city solutions		Provision of e-commerce supply chain services			
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000 (Restated)
	Six months ended 30 June							
Segment revenue – external customers	53,410	64,951	12,365	2,092	18,765	52,195	84,540	119,238
Segment results	1,461	2,868	(6,870)	(11,620)	(3,635)	1,002	(9,044)	(7,750)
Unallocated other operating income, net gains or losses							838	866
Unallocated expenses							(3,848)	(3,574)
Loss before tax (continuing operations)							(12,054)	(10,458)

The accounting policies of the reportable segments are the same as the Group's accounting policies.

Segment results represents the result from each segment without allocation of central administration costs, Directors' emoluments and certain other operating income, net gains or losses. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

(ii) Segment assets and liabilities

	Trading of hardware and computer software		Provision of smart city solutions		Provision of e-commerce supply chain services		Consolidated	
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	As at	As at	As at	As at	As at	As at	As at	As at
	30 June 2021	31 December 2020	30 June 2021	31 December 2020	30 June 2021	31 December 2020	30 June 2021	31 December 2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	29,963	26,865	45,548	47,475	5,902	6,007	81,413	80,347
Unallocated assets							50,391	62,330
Total assets							131,804	142,677
Segment liabilities	3,422	8,775	11,008	16,478	2,045	1,839	16,475	27,092
Unallocated liabilities							9,579	3,068
Total liabilities							26,054	30,160

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than certain plant and equipment, right-of-use assets, bank balances and cash, financial assets at fair value through profit or loss, certain prepayments and other receivables and deferred tax assets which are unable to allocate to reportable segments; and
- all liabilities are allocated to reportable segments other than certain other payables, income tax payable and lease liabilities.

(iii) Geographical information

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

4. OTHER OPERATING INCOME, NET GAINS OR LOSSES

Continuing operations

	(unaudited)		(unaudited)	
	Six months ended 30 June		Three months ended 30 June	
	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		(Restated)
Government grants <i>(Note)</i>	1,484	598	101	161
Exchange (loss) gain, net	(544)	437	(154)	212
Bank interest income	382	268	204	139
(Provision) reversal of impairment loss of trade receivables, net	(389)	157	(389)	157
Gain on disposal of an associate	459	-	-	-
Reversal of impairment loss of right-of-use assets	529	-	-	-
Others	11	4	11	-
	1,932	1,464	(227)	669

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.

5. INCOME TAX

Continuing operations

	(unaudited)		(unaudited)	
	Six months ended 30 June		Three months ended 30 June	
	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		(Restated)
PRC Enterprise Income Tax ("EIT")	247	67	217	67

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 Group was subject to EIT at a rate of 15% (2020: 15%) as it was classified as an Advanced and New Technology Enterprise (高新科技企業).

No provision for EIT has been made for the Group for the relevant periods (2020: Nil) as there was no assessable profits derived by the Group for the relevant periods (2020: Nil). For the six and three months ended 30 June 2021, 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 RMB30,000 (2020: RMB67,000) and nil (2020: RMB67,000), respectively. For the six and three months ended 30 June 2021, 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 RMB217,000 (2020: Nil), 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).

6. LOSS FOR THE PERIOD

Continuing operations

Loss for the period has been arrived at after charging:

	(unaudited)		(unaudited)	
	Six months ended 30 June	2020	Three months ended 30 June	2020
	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		(Restated)
Depreciation of plant and equipment	502	115	172	56
Depreciation of right-of-use assets	1,225	765	386	360
Amortisation of intangible assets	150	150	75	75

7. 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 six and three months ended 30 June 2021 from discontinued operation were set out below:

	(unaudited) Six months ended 30 June		(unaudited) Three months ended 30 June	
	2021 RMB'000	2020 RMB'000 (Restated)	2021 RMB'000	2020 RMB'000 (Restated)
Loss for the period from discontinued operation	-	486	-	73

8. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2021 (2020: Nil).

9. 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 2021 and 2020.

10. LOSS PER SHARE

Continuing and discontinued operations

The calculations of the basic loss per share from continuing and discontinued operations are based on loss for the six and three months ended 30 June 2021 attributable to owners of the Company of approximately RMB9,844,000 (2020: RMB10,937,000) and RMB1,556,000 (2020: RMB1,308,000), respectively, and the weighted average number of approximately 506,546,000 (2020: 506,546,000) shares in issue during the period.

Diluted loss per share were the same as basic loss per share for the six and three months ended 30 June 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 per share from continuing operations are based on the following data:

Loss figures are calculated as follows:

	(unaudited)		(unaudited)	
	Six months ended 30 June	2020	Three months ended 30 June	2020
	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		(Restated)
Loss for the period attributable to owners of the Company	9,844	10,937	1,556	1,308
Less: loss for the period from discontinued operation	-	412	-	61
Loss for the period attributable to owners of the Company from continuing operations for the purpose of basic and diluted loss per share	9,844	10,525	1,556	1,247

	(unaudited)		(unaudited)	
	Six months ended 30 June		Three months ended 30 June	
	2021	2020	2021	2020
	'000	'000	'000	'000
Number of shares				
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	506,546	506,546	506,546	506,546

11. TRADE RECEIVABLES

	(unaudited) 30 June 2021 RMB'000	(audited) 31 December 2020 RMB'000
Trade receivables at amortised cost	43,301	46,219
Less: allowances for impairment losses	(3,169)	(2,781)
	40,132	43,438

There were no specific credit periods granted to customers except for an average credit period of 30-90 days (31 December 2020: 30-90 days) to the Group's trade customers under 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 2021 RMB'000	(audited) 31 December 2020 RMB'000
0 to 60 days	19,140	32,603
61 to 90 days	1,442	713
91 to 180 days	6	43
Over 180 days	19,544	10,079
	40,132	43,438

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

12. TRADE AND OTHER PAYABLES

	(unaudited) 30 June 2021 RMB'000	(audited) 31 December 2020 RMB'000
Trade payables	12,719	15,988
Other payables and accruals	3,812	6,240
	16,531	22,228

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

	(unaudited) 30 June 2021 RMB'000	(audited) 31 December 2020 RMB'000
Less than one year	6,664	9,654
Over one year but less than two years	66	2,440
Over two years but less than three years	2,749	333
More than three years	3,240	3,561
	12,719	15,988

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 six months and three months ended 30 June 2021, (i) the trading of hardware and computer software business generated revenue of approximately RMB53,410,000 (2020: RMB64,951,000) and RMB28,019,000 (2020: RMB28,946,000), respectively, representing approximately 17.77% and 3.20% decrease, 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, so the revenue for the period fell year-on-year; (ii) the provision of smart city solutions business generated revenue of approximately RMB12,365,000 (2020: RMB2,092,000) and RMB9,492,000 (2020: RMB1,468,000), respectively, representing approximately 491.06% and 546.59% increase, 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 income was recognised;

and (iii) the provision of e-commerce supply chain services business generated revenue of approximately RMB18,765,000 (2020: RMB52,195,000) and RMB9,671,000 (2020: RMB37,512,000), respectively, representing approximately 64.05% and 74.22% 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 six months ended 30 June 2021, the unaudited revenue of the Group from continuing operations was approximately RMB84,540,000 (2020: RMB119,238,000 (restated)), representing a decrease of approximately RMB34,698,000, or approximately 29.10%, as compared with that of the same period of the year 2020. For the three months ended 30 June 2021, the unaudited revenue of the Group from continuing operations is approximately RMB47,182,000 (2020: RMB67,926,000 (restated)), representing a decrease of approximately RMB20,744,000, or approximately 30.54%, as compared with that of the same period of the year 2020.

(iii) Gross profit margin

Continuing operations

For the six months and three months ended 30 June 2021, (i) the gross profit margin of the trading of hardware and computer software business was approximately 7.95% (2020: 8.50%) and 8.13% (2020: 12.29%), respectively. Compared with the same period of last year, the gross profit margin of this business has decreased. The Group strived to continuously adjust the sales strategy and sales structure of this business, increasing the sales of brands and products with relatively higher gross profit margin, while decreasing the sales of brands and products with low gross profit margin. At the same time, the Group focused on developing direct customers in this business to increase the overall business gross profit margin; (ii) the gross profit margin of the provision of smart city solutions business was approximately 21.50% (2020: 26.20%) and 22.81% (2020: 29.43%), 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 5.62% (2020: 5.06%) and 6.89% (2020: 5.61%), 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.

The unaudited gross profit margin of the Group from continuing operations for the six months and three months ended 30 June 2021 was approximately 9.42% (2020: 7.30% (restated)) and 10.83% (2020: 8.97% (restated)), respectively. Compared with the same period of last year, the Group's consolidated gross profit margin from continuing operations has increased. The main reasons were that, on the one hand, the Group adjusted the sales structure of the provision of e-commerce supply chain services business to increase the business gross profit margin, and on the other hand, the proportion of the revenue of the provision of smart city solutions business with high gross profit margin has increased during the period.

(iv) Loss attributable to owners of the Company

Continuing operations

For the six months and three months ended 30 June 2021, (i) the trading of hardware and computer software business reported segment profit of approximately RMB1,461,000 (2020: RMB2,868,000) and RMB1,275,000 (2020: RMB2,744,000). This business segment withdrew from a certain brand agency business after continuing to adjust its sales structure last year, so its revenue dropped significantly. At the same time, the business segment is also actively expanding new businesses and investing corresponding costs. Therefore, the segment profit has decreased; (ii) the provision of smart city solutions business reported segment loss of approximately RMB6,870,000 (2020: RMB11,620,000) and RMB787,000 (2020: RMB4,003,000), respectively. This business segment achieved a significant increase in revenue during the period and received more software VAT tax rebates than the same period of last year. Also, the Group recorded investment gain on disposal of its 33% equity interests in Guifutong Network Technology Co., Ltd.* (貴服通網絡科技有限責任公司) (“**Guifutong**”) (as detailed below). As a result, there was a significant decrease in the segment loss; and (iii) the provision of e-commerce supply chain services business reported segment loss of approximately RMB3,635,000 (2020: profit of RMB1,002,000) and RMB3,230,000 (2020: profit of RMB694,000), respectively. The revenue of this business segment decreased significantly during the period. At the same time, the Group invested costs for the early deployment stage in the field of social e-commerce (especially in the second quarter). Therefore, the segment results declined significantly. For the six months and three months ended 30 June 2021, the net unallocated expenses of the Group from continuing operations were approximately RMB3,010,000 (2020: RMB2,708,000 (restated)) and RMB870,000 (2020: RMB615,000 (restated)).

As a result of the cumulative effect of the principal factors described above, for the six months ended 30 June 2021, the Group reported an unaudited net loss attributable to owners of the Company and loss per share from continuing operations of approximately RMB9,844,000 (2020: RMB10,525,000 (restated)) and RMB1.94 cents (2020: RMB2.08 cents (restated)), respectively. For the three months ended 30 June 2021, the Group reported an unaudited net loss attributable to owners of the Company and loss per share from continuing operations of approximately RMB1,556,000 (2020: RMB1,247,000 (restated)) and RMB0.31 cents (2020: RMB0.25 cents (restated)), respectively.

Discontinued operation

For the six months ended 30 June 2021, the Group has not reported any unaudited results attributable to owners of the Company from discontinued operation (2020: loss of RMB412,000 (restated)). For the three months ended 30 June 2021, the Group has not reported any unaudited results attributable to owners of the Company from discontinued operation (2020: loss of RMB61,000 (restated)).

Continuing and discontinued operations

For the six months ended 30 June 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 RMB9,844,000 (2020: RMB10,937,000) and RMB1.94 cents (2020: RMB2.16 cents), respectively. For the three months ended 30 June 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 RMB1,556,000 (2020: RMB1,308,000) and RMB0.31 cents (2020: RMB0.26 cents), respectively.

2. Impact of “Novel Pneumonia Coronavirus” epidemic

The outbreak of the “Novel Pneumonia Coronavirus” epidemic in early 2020 had made a deep impact on the social and economic development. Now the country, through the adoption of effective anti-epidemic measures, has basically brought the epidemic under control and citizens’ lives have basically not been affected. The number of people infected overseas, save for some individual areas, is gradually decreasing. At present, the Group has basically returned to normal, except that individual operating activities of the cross-border e-commerce supply chain services business have still been negatively affected by the epidemic. The Group will closely monitor the trend 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)” and “integrated information cooperation in Yangtze River Delta (長三角一體化信息化合作)” by the government and the upgrade of third-generation social security cards, and kept on providing continuous software system development services and value-added services for the “Digital Citizen and Citizen Card Service

Platform* (數字市民及市民卡服務平台)” in local cities where the Group has maintained good relationships with customers. At the same time, the Group also vigorously explored new customer resources within and outside Zhejiang Province. In addition, with the development of new technologies such as AIoT and big data, the Group vigorously innovated to provide new smart city solutions services and new solution services in other sub-segments (such as smart trade union, smart community, smart housekeeping and digital village, etc.) based on the city brain (城市數據大腦). 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. 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 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 actively built up a community marketing service team and commenced the construction of a new retail entrepreneurial incubation platform to prepare for the subsequent development of community marketing services for maternal and infant products, pet food and supplies and other products.

4. Investment and cooperation

(i) *Business investment and cooperation*

On 25 January 2021, Dianshi Technology, the Company's 41% owned subsidiary, entered into an investment cooperation framework agreement with Mr. Xie Zhizong (謝志宗), an independent third party, pursuant to which the afore-mentioned two parties had agreed to form Hangzhou Mengya Technology Co., Ltd.* (杭州萌呀科技有限公司) (formerly known as Hangzhou Finmei Network Technology Co., Ltd.* (杭州芬美網絡科技有限公司)) ("**Mengya Technology**") through acquisition and subsequent capital injection with a total registered capital of RMB1,000,000 in Hangzhou City, Zhejiang Province, the PRC. Each of Dianshi Technology and Mr. Xie Zhizong had agreed to contribute to the total registered capital of Mengya Technology at RMB670,000 and RMB330,000, respectively. Mengya Technology will mainly use e-commerce channels to carry out brand agency and sales of pet food and supplies, as a useful supplement to community marketing services. Mengya Technology's industrial and commercial registration change was 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 to Guiguang Network for a consideration of RMB7,218,500. Guifutong has been principally engaged in the provision of smart city solutions, involving mainly the construction and operation of the Guifutong Service Platform and the related value-added application service platform and big data platform. Guifutong was then an associate of the Group and was owned as to 33% by Increator Technology and 67% by Guiguang Network. Details of the Equity Transfer Agreement and disposal of 33% equity interests in Guifutong were set out in the announcement of the Company dated 15 March 2021 and annual report of the Company for the year 2020 dated 19 March 2021. Up to the date of this report, the Equity Transfer Agreement has been completed and the Group no longer holds any equity interests in Guifutong, which has ceased to be an associate of the Group.

On 20 April 2021, Dianshi Technology, the Company’s 41% owned subsidiary, entered into an investment cooperation framework agreement with Hangzhou Fun and Culture Creativity Partnership LP* (杭州拾趣文化創意合伙企業(有限合夥)) (**“Fun and Culture Creativity Partnership”**), pursuant to which the afore-mentioned two parties had agreed to establish Zhejiang Full Fun Technology Co., Ltd. * (浙江滿趣科技有限公司) (**“Full Fun Technology”**) with a registered capital of RMB10,000,000 in Huzhou City, Zhejiang Province, the PRC. 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.

Subsequent to the reporting period, 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 the 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. The acquisition of Full Fun Supply Chain has not yet been completed up to the date of this report. Upon the completion of the acquisition of Full Fun Supply Chain, it will be accounted for as a subsidiary of the Company and its financial statements will be incorporated in the consolidated financial statements of the Group.

Besides the 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.* (杭州银行股份有限公司) (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 2.81% (2020: 2.50 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 2.74% to 3.65% (2020: not applicable), which was relatively higher than the comparable market bank deposit interest rates.

The subscriptions of the Wealth Management Products were made for treasury management purpose to maximise the return on the unutilised funds of the Group after taking into account, among others, the level of risk, return on investment and term to maturity. The Group generally subscribed for standard short-term wealth management products issued by creditworthy banks with its temporary unused idle funds, on a revolving basis. Although the Wealth Management Products were marketed as wealth management products which were not principal protected nor with pre-determined or guaranteed return, the underlying investments were considered to have relatively low risk and be also in line with the internal risk management, cash management and investment policies of the Group as the Group had fully recovered the principal and received the expected returns upon the redemption of the Wealth Management Products in the past. In addition, the Wealth Management Products were with flexible redemption terms or relatively short terms of maturity, and which were considered to akin to placing deposits with banks whilst enabling the Group could also earn more lucrative returns than spot bank savings or time deposit interest rates. Also, in view of the low-risk nature and 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 six and three months ended 30 June 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 June 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 RMB18,575,000 (31 December 2020: RMB25,500,000) and represented approximately 14.09% (31 December 2020: 17.87%) of its total assets. For the six and three months ended 30 June 2021, the unaudited gain realised by the Group from the Wealth Management Products amounted to approximately RMB370,000 (2020: RMB253,000) and RMB199,000 (2020: RMB132,000), respectively.

5. Employees information

Continuing operations

As at 30 June 2021, the Group had 207 (31 December 2020: 152) employees in total. The total staff costs of the Group for the reporting period amounted to approximately RMB21,424,000 (2020: RMB16,260,000 (restated)). During the reporting period, there was significant increase in the total number of employees and staff costs, which was mainly attributable to the Group 's recruitment of necessary talents from the market for the formation of a team in order to cultivate and develop community marketing services in the business of e-commerce supply chain services.

The Group's human resources management strategy is formulated with the Group's development strategy as guideline on the one hand and with the goals stipulated in the long term vision planning as direction on the other. At the same time, incentive scheme has been linked with other human resources management programs and promoted each other. The Group opened wide for recruitment channels, set up mechanisms for attracting talents, grasped for the development of talent usability and formulated a good system in people deployment and incubation. The Group implemented a target annual income system which linked up staff performance appraisal with compensation system. Target annual income was fixed and released in accordance with performance appraisal result. After a total assessment on employee's job performance, capability and work attitude, an integrated evaluation could be established for the employee which would be used as referencing standard. Through the integration of the two systems, the employees were effectively motivated and the attainment of the Group's goal 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 have share options scheme nor bonus plan.

II. REVIEW OF FINANCIAL PERFORMANCE AND POSITIONS

1. Financial performance

- For the six and three months ended 30 June 2021, the Group's revenue from continuing operations amounted to approximately RMB84,540,000 (2020: RMB119,238,000 (restated)) and RMB47,182,000 (2020: RMB67,926,000 (restated)), respectively.
- For the six and three months ended 30 June 2021, the Group's gross profit margin from continuing operations was approximately 9.42% (2020: 7.30% (restated)) and 10.83% (2020: 8.97% (restated)), respectively.
- For the six months ended 30 June 2021, the Group had a net loss attributable to owners of the Company from continuing operations of approximately RMB9,844,000 (2020: RMB10,525,000 (restated)). For the three months ended 30 June 2021, the Group had a net loss attributable to owners of the Company of approximately RMB1,556,000 (2020: RMB1,247,000 (restated)), respectively.
- For the six months ended 30 June 2021, the Group had no results attributable to owners of the Company from discontinued operation (2020: loss of RMB412,000 (restated)). For the three months ended 30 June 2021, the Group had no results attributable to owners of the Company from discontinued operation (2020: loss of RMB61,000 (restated)).
- For the six months ended 30 June 2021, the Group had a net loss attributable to owners of the Company from continuing and discontinued operations of approximately RMB9,844,000 (2020: RMB10,937,000). For the three months ended 30 June 2021, the Group had a net loss attributable to owners of the Company from continuing and discontinued operations of approximately RMB1,556,000 (2020: RMB1,308,000).

- For the six months ended 30 June 2021, the Group's loss per share from continuing operations was approximately RMB1.94 cents (2020: RMB2.08 cents (restated)). For the three months ended 30 June 2021, the Group's loss per share from continuing operations was approximately RMB0.31 cents (2020: RMB0.25 cents (restated)).
- For the six months ended 30 June 2021, the Group's loss per share from continuing and discontinued operations was approximately RMB1.94 cents (2020: RMB2.16 cents). For the three months ended 30 June 2021, the Group's loss per share from continuing and discontinued operations was approximately RMB0.31 cents (2020: RMB0.26 cents).

2. Financial positions

- The Group maintained creditable financial conditions. For the six months ended 30 June 2021, the Group was mainly financed by proceeds generated from daily operations and other internal resources.
- As at 30 June 2021, the Group had right-of-use assets of approximately RMB9,316,000 (31 December 2020: RMB3,286,000). The Group entered into more leases for larger office space for the formation of a community marketing services team, so the right-of-use assets increased significantly during the period.
- As at 30 June 2021, the Group did not have interest in associate (31 December 2020: RMB6,759,000). As described above, the Group had disposed of its entire interest in Guifutong during the period.
- As at 30 June 2021, the Group had inventories of approximately RMB13,836,000 (31 December 2020: RMB8,642,000). During the period, the Group's trading of hardware and computer software business has increased its inventories to meet the needs of some major customers, and most of them have completed sales subsequent to the period.

- As at 30 June 2021, the Group had total prepayments and other receivables of approximately RMB16,964,000 (31 December 2020: RMB10,677,000). The increase in the total prepayments and other receivables during the period was mainly attributable to the increase in prepayments for inventories in the trading of hardware and computer software business of the Group, and the increase in prepayments for the community marketing business at the same time.
- As at 30 June 2021, 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 RMB34,375,000 (31 December 2020: RMB53,753,000). The total bank balances and cash and financial assets at fair value through profit or loss to total assets and net assets ratios as at 30 June 2021 were approximately 26.08% (31 December 2020: 37.67%) and 32.51% (31 December 2020: 47.77%), respectively.
- As at 30 June 2021, the Group had trade and other payables of approximately RMB16,531,000 (31 December 2020: RMB22,228,000). The scale of the Group's trading of hardware and computer software business has declined, and its trade payables decreased significantly during the period. At the same time, the operating performance of the Group for the reporting period declined when comparing to the last year, so the tax payables at the end of the period decreased significantly.



- As at 30 June 2021, the Group had contract liabilities of approximately RMB468,000 (31 December 2020: RMB4,864,000). The advanced payments received by the Group's trading of hardware and computer software business decreased significantly, so the contract liabilities decreased significantly during the period.
- As at 30 June 2021, the Group had total lease liabilities of approximately RMB9,055,000 (31 December 2020: RMB3,041,000). The Group entered into more leases for larger office space for the formation of a community marketing services team, so the total lease liabilities increased significantly during the period.
- As at 30 June 2021, the Group had total assets of approximately RMB131,804,000 (31 December 2020: RMB142,677,000).
- As at 30 June 2021, the Group had total liabilities of approximately RMB26,054,000 (31 December 2020: RMB30,160,000).
- As at 30 June 2021, the Group had equity attributable to owners of the Company of approximately RMB102,673,000 (31 December 2020: RMB112,517,000).
- As at 30 June 2021, the Group had non-controlling interests of approximately RMB3,077,000 (31 December 2020: Nil).
- As at 30 June 2021, the Group had a gearing ratio (i.e. the ratio of total liabilities to total assets) of approximately 19.77% (31 December 2020: 21.14%).
- As at 30 June 2021, the Group had a net current ratio (i.e. the ratio of current liabilities to current assets) of approximately 17.25% (31 December 2020: 22.86%).

- 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 2021, none of the Group's assets were pledged (31 December 2020: Nil).

III. CAPITAL STRUCTURE

There were no changes in the Company's capital structure during the six months ended 30 June 2021 (year ended 31 December 2020: Nil). The registered capital of the Company was RMB50,654,617, comprising 244,421,170 domestic shares (the "**Domestic Shares**") of the Company of nominal value of RMB0.10 each and 262,125,000 H Shares of nominal value of RMB0.10 each, as at 30 June 2021 and 31 December 2020.

IV. 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.

V. 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 system integration services in the security sector, and sought to increase the proportion of system integration service contract revenue as part of its effort to gradually improve the business income structure and profitability. The Group's smart city solutions business's construction service contracts were being implemented in and outside of Zhejiang Province as planned, and it has established good cooperative relationships with local city customers, explored customer needs, provided smart city solution products and services such as the "Digital Citizen and Citizen Card Service Platform* (數字市民及市民卡服務平台)". Business orders and contracts in many other cities in the country were procured, creating paths for subsequent new contracts and orders. The Group's e-commerce supply chain services business has established cooperative relationships with a number of domestic e-commerce platforms, domestic and foreign brand manufacturers and merchants. However, business model restrictions and intensified market competition had led to a moderate strategic contraction of the traditional cross-border e-commerce supply chain services. The community marketing services focused on and cultivated are stepping up the preparation and layout, and cooperation agreements have been signed with a number of potential partners to lay sufficient preparations for the rapid start-up development within this year.

2. Prospects of new business and new products

The Group has continued to pursue business transformation and development. During the reporting period, the “Fourteenth Five-Year (十四五)” five-year development strategy planning discussion was organised and carried out, the direction of business development was gradually clear, and the building of a business ecosystem in line with the development of the Group was further clarified. The Group will integrate its existing business and technological advantages to continue seeking new business opportunities, with the support of technological development and business innovation capabilities grasped by the provision of smart city solutions business, collaborating with other businesses, exploiting and integrating resource advantages, and developing innovative new businesses or products to 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 provision of smart city solutions business, strengthen the innovation of solutions, provide “digital empowerment (數字賦能)” to customers, and, through the continuous improvement of the “Digital Citizen and Citizen Card Service Platform* (數字市民及市民卡服務平台)”, especially enhance the innovative expansion of application scenarios and service functions of new applications of digital citizens (數字市民) based on the city brain (城市數據大腦), such as further strengthening the development of applications like smart trade union, smart community, digital village and smart housekeeping services. The Group will grasp the opportunities arose from the deep reconsideration by the state and governments at all levels of social governance and city management service capabilities and efficiency, promote to customers in various cities perfect digital information services possessing “information release, information collection, traceability and behaviour management”, providing better solutions for the improvement of their social governance and city management, and drive the development of new customers and excavation of old customers of the business.



On the other hand, the Group will continue to 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, push forward as soon as possible the formation of operation teams, construction of high-quality product supply chain channels and establishment of business incubation service platforms; and strive to attain the commencement of community marketing services in the third quarter of the year 2021, in order to accomplish an effective breakthrough in transformation and development as soon as possible. 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 ecology 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 encourage useful exploration in other product sales services. Especially, in terms of clearly supporting the development of smart and safe campus services, the Group will speed up the market layout of domestic pilot 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 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, the Group can build a business ecosystem with its own characteristics with effective coverage from technology to service, from product to platform, from offline to online, and from B end to C end in the future. The Group's sustainable profitability in the mobile Internet service sector will be created which will bring more value to the Shareholders.

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

Save as disclosed below, as at 30 June 2021, none of the Directors, supervisors or chief executives of the Company had an interest in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange:

Long position in shares

Name	Capacity and nature of interest	Number of shares held	Percentage of beneficial interests in the Company's share capital
<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 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 June 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 (31 December 2020: Nil).

SHARE OPTION SCHEME

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

INTEREST DISCLOSEABLE UNDER THE SFO AND THE SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, so far as was known to any Directors, supervisors or chief executives of the Company, as at 30 June 2021, there were no persons or companies (other than the interests as disclosed above in respect of the Directors) who had equity interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO; or who were deemed to be directly or indirectly interested in 10% or more of the nominal value of any class of share capital of the Company carrying rights to vote in all circumstances at general meetings of the Company; or who were Shareholders as recorded in the register maintained under section 336 of the SFO:

Long position in shares

Name	Capacity and nature of interest	Number of shares held	Percentage of beneficial interests in the Company's share capital
<i>Substantial Shareholders</i>			
Zhejiang Shenghua Holdings Group Company Limited* (浙江升華控股集團有限公司) (“ Zhejiang Shenghua ”)	Beneficial owner and interest of a controlled corporation	168,846,930 Domestic Shares (Note 1) and 93,130,000 H Shares (Note 2)	51.72%
Rise Sea Limited (“ Rise Sea ”)	Beneficial owner	93,130,000 H Shares (Note 2)	18.39%

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 company established in the PRC, which in turn is owned as to 75% by Mr. Xia Shilin. For the purposes of the SFO, Deqing Huisheng and Mr. Xia Shilin are each deemed to be interested in the 168,846,930 Domestic Shares owned by Zhejiang Shenghua.

- (2) These 93,130,000 H Shares are beneficially owned by Rise Sea. Rise Sea is a limited company incorporated in Hong Kong and is wholly-owned by Zhejiang Shenghua. Zhejiang Shenghua is owned as to approximately 69.54% by Deqing Huisheng, which in turn is owned as to 75% by Mr. Xia Shilin. For the purposes of the SFO, Zhejiang Shenghua, Deqing Huisheng and Mr. Xia Shilin are each deemed to be interested in the 93,130,000 H Shares owned by Rise Sea.
- (3) Ms. Qian Xiaomei is the spouse of Mr. Xia Shilin and therefore she and Mr. Xia Shilin are deemed to be interested in each other's shares under the SFO.
- (4) Ms. He Yan is the spouse of Mr. Zhang Xuguang and therefore she and Mr. Zhang Xuguang are deemed to be interested in each other's shares under the SFO.
- (5) Ms. Dai Jihong is the spouse of Mr. Wu Menggen and therefore she and Mr. Wu Menggen are deemed to be interested in each other's shares under the SFO.

COMPETING INTERESTS

None of the Directors or 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 six and three months ended 30 June 2020 have been restated to conform to current periods' 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 condensed interim financial statements and the interim report of the Group for the six months ended 30 June 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 six months ended 30 June 2021 (2020: Nil).

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2021, the Company has 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 GEM Listing Rules 5.48 to 5.67. 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 the Directors throughout the six months ended 30 June 2021.

CORPORATE GOVERNANCE

The Company has met the code provisions set out in the Corporate Governance Code contained in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 June 2021.

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

Hangzhou City, the PRC, 13 August 2021

* *For identification purposes only*