Futong

富通

Futong Technology Development Holdings Limited

富通科技發展控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 465)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2010 amounted to approximately HK$2,847.2 million (2009: approximately HK$2,586.3 million), representing an increase of 10.1% as compared with the corresponding period in 2009.

- Profit attributable to equity shareholders of the Company for the year ended 31 December 2010 amounted to approximately HK$80.1 million (2009: approximately HK$67.6 million), representing an increase of 18.6% as compared with the corresponding period in 2009.

- Basic earnings per share for the year ended 31 December 2010 amounted to approximately HK$0.26 (2009: approximately HK$0.29 or approximately HK$0.22 if assuming 311,250,000 shares were in issue throughout the year ended 31 December 2009).

- The Board recommends the payment of a final dividend of HK7.8 cents per share for the year ended 31 December 2010.

FINAL RESULTS

The board (the "Board") of directors (the "Directors") of Futong Technology Development Holdings Limited (the "Company") is pleased to announce the following consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2010 together with comparative audited figures for the corresponding period in 2009, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010
(Expressed in Hong Kong dollars)

	Notes	**2010** *HK$'000*	2009 *HK$'000*
Revenue	*4*	**2,847,205**	2,586,286
Cost of sales		**(2,587,374)**	(2,366,497)
Gross profit		**259,831**	219,789
Other revenue	*6*	**897**	776
Other net loss	*6*	**(183)**	—
Distribution costs		**(113,629)**	(85,252)
Administrative expenses		**(30,026)**	(38,288)
Profit from operations		**116,890**	97,025
Finance costs	*7*	**(23,174)**	(27,532)
Share of profits less losses of an associate		**617**	—
Profit before taxation	*7*	**94,333**	69,493
Income tax	*8*	**(14,769)**	(2,003)
Profit for the year		**79,564**	67,490
Attributable to:			
Equity shareholders of the Company		**80,130**	67,566
Non-controlling interests		**(566)**	(76)
Profit for the year		**79,564**	67,490
Earnings per share			
— Basic and diluted (HK$)	*10*	**0.26**	0.29

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

(Expressed in Hong Kong dollars)

	2010	2009
	HK$'000	*HK$'000*
Profit for the year	**79,564**	67,490
Other comprehensive income for the year		
— Exchange differences on translation of financial statements of operations outside Hong Kong	**10,178**	333
Total comprehensive income for the year	**89,742**	67,823
Attributable to:		
Equity shareholders of the Company	**90,284**	67,899
Non-controlling interests	**(542)**	(76)
Total comprehensive income for the year	**89,742**	67,823

CONSOLIDATED BALANCE SHEET

At 31 December 2010
(Expressed in Hong Kong dollars)

	Notes	2010 HK$'000	2009 HK$'000 (restated)
Non-current assets			
Property, plant and equipment		**43,213**	38,458
Interest in an associate		**24,132**	—
Deposits for the purchase of property, plant and equipment		**4,818**	—
Deferred tax assets		**29,935**	8,694
Total non-current assets		**102,098**	47,152
Current assets			
Inventories		**194,979**	356,352
Trade and other receivables	*11*	**769,355**	807,393
Other financial assets		**23,504**	—
Pledged deposits		**173,282**	144,053
Cash and cash equivalents		**275,500**	210,883
Total current assets		**1,436,620**	1,518,681
Current liabilities			
Trade and other payables	*12*	**696,354**	841,566
Bank loans		**299,384**	302,340
Tax payable		**23,996**	3,663
Total current liabilities		**1,019,734**	1,147,569
Net current assets		**416,886**	371,112
NET ASSETS		**518,984**	418,264
CAPITAL AND RESERVES			
Share capital		**31,125**	31,125
Reserves		**477,243**	386,959
Total equity attributable to equity shareholders of the Company		**508,368**	418,084
Non-controlling interests		**10,616**	180
TOTAL EQUITY		**518,984**	418,264

NOTES:

(Expressed in Hong Kong dollars unless otherwise stated)

1. GENERAL INFORMATION AND GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 29 July 2009 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The companies comprising the Group underwent a reorganisation (the "Reorganisation") to rationalise the Group's structure in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). On 11 November 2009, the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 24 November 2009 (the "Prospectus").

The Company's shares were listed on the Stock Exchange on 4 December 2009.

2. STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION

(a) Statement of compliance

The annual results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 December 2010 but are extracted from those financial statements.

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and Interpretations, issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

(b) Basis of presentation

The Group is regarded as a continuing entity resulting from the Reorganisation under common control and has been accounted for on the basis of merger accounting. The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for both years presented, rather than from the date of the Reorganisation. Accordingly, the consolidated results of the Group for the years ended 31 December 2009 and 2010 include the results of the Company and its subsidiaries, as if the current group structure had been in existence throughout the two years presented. The consolidated balance sheets at 31 December 2009 and 2010 have been prepared to present the state of affairs of the companies now comprising the Group as at the respective dates as if the current group structure had been in existence as at 31 December 2008. All material intra-group transactions and balances have been eliminated on consolidation. In the opinion of the Directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

3. CHANGES IN ACCOUNTING POLICIES

The IASB has issued two revised IFRSs, a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

— IFRS 3 (revised 2008), *Business combinations*
— Amendments to IAS 27, *Consolidated and separate financial statements*
— Amendments to IAS 39, *Financial Instruments: Recognition and measurement — eligible hedged items*
— Improvements to IFRSs (2009)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The amendment to IAS 39 and the improvements to IFRSs (2009) have had no material impact on the Group's financial statements as the amendment and improvements were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

— The impact of the majority of the revisions to IFRS 3 and IAS 27 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination or a disposal of a subsidiary) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

— The impact of the amendments to IFRS 3 (in respect of recognition of acquiree's deferred tax assets) and IAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

In November 2010, the IFRS Interpretations Committee of the IASB published its final agenda decision in response to a request on the appropriate classification of a callable term loan. As a result of the position taken in this decision, the Group has changed its accounting policy for the classification of bank loans that contain a repayment on demand clause. Under the new policy, bank loans with clauses which give the lender the unconditional right to call the loan at any time are classified as current liabilities in the consolidated balance sheet. Previously such bank loans were classified in accordance with the agreed repayment schedule unless the Group had breached any of the loan covenants set out in the agreement as at the balance sheet date or otherwise had reason to believe that the lender would invoke its rights under the immediate repayment clause within the foreseeable future.

The reclassification has been applied retrospectively by re-presenting the opening balance at 1 January 2010, with consequential reclassification adjustments to comparatives for the year ended 31 December 2010. The reclassification has no impact on the consolidated balance sheet as at 1 January 2009 as the Group did not have non-current bank loans as at 1 January 2009. The reclassification has no effect on reported profit or loss, total income and expense or net assets for any period presented.

	As previously reported	**Effect of reclassification**	**As restated**
	HK$'000	*HK$'000*	*HK$'000*
Effect on the consolidated balance sheet as at 31 December 2009:			
Bank loans (current)	297,075	5,265	302,340
Bank loans (non-current)	5,265	(5,265)	—

4. REVENUE

The principal activities of the Group are distribution of enterprise IT products and provision of services.

Revenue represents the sales value of goods sold to customers excluding value added tax or other sales taxes and is after allowances for goods returned and deduction of any trade discounts. The amount of each significant category of revenue recognised during the year is as follows:

	Years ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Sales of goods	**2,814,251**	2,564,851
Provision of services	**32,954**	21,435
	2,847,205	2,586,286

The Group's customer base is diversified and none of the customers (2009: one) with whom transactions have exceeded 10% of the Group's revenue in 2010. In 2009, revenue from sales of goods to that customer, including sales to entities which were known to the Group to be under common control with that customer, amounted to approximately HK$352.4 million.

5. SEGMENT REPORTING

The Directors consider that the Group operates in a single business and geographical segment as the revenue and profit are derived entirely from the distribution of enterprise IT products and provision of services to the customers in the PRC. Accordingly, no segmental analysis is presented.

6. OTHER REVENUE AND OTHER NET LOSS

	Years ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Other revenue		
Interest income on bank deposits	**897**	776
Other net loss		
Loss on disposal of property, plant and equipment	**(183)**	—

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	Years ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Finance costs:		
Interest on bank borrowings wholly repayable within five years	**20,030**	17,640
Other borrowing costs	**3,144**	9,892
	23,174	27,532
Staff costs:		
Salaries and allowances	**75,717**	61,969
Contributions to retirement schemes	**6,710**	4,685
	82,427	66,654
Other items:		
Depreciation	**6,011**	4,765
Net foreign exchange loss/(gain)	**1,517**	(164)
(Reversal of)/impairment loss on trade and bills receivables	**(2,210)**	5,171
Operating lease charges in respect of properties	**11,959**	8,631
Research and development expenditure	**6,845**	3,505
Auditors' remuneration	**1,528**	1,350
Cost of inventories	**2,587,374**	2,366,497

8. INCOME TAX

Income tax in the consolidated income statement represents:

	Years ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Current tax — Hong Kong Profits Tax		
Provision for the year	**20**	699
Under-provision in respect of prior years	**161**	—
	181	699
Current tax — PRC income tax		
Provision for the year	**35,172**	6,682
Deferred tax		
Origination and reversal of temporary differences	**(20,584)**	(5,378)
	14,769	2,003

8. INCOME TAX *(Continued)*

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

(ii) The provision for Hong Kong Profits Tax for the year ended 31 December 2010 was calculated at 16.5% (2009: 16.5%) of the estimated assessable profits.

(iii) Pursuant to the income tax rules and regulations of the PRC, the subsidiaries in the PRC are liable to PRC enterprise income tax at a rate of 25% (2009: 25%) on their assessable profits, except for Beijing Futong Dongfang Technology Co., Ltd. ("Futong Dongfang").

Being a recognised Advanced and New Technology Enterprise located in the Beijing New Technology Industry Development Experimental Zone, Futong Dongfang was granted a preferential tax rate of 15% and was entitled to a tax holiday of a 3-year full exemption followed by a 3-year 50% exemption commencing from the first profit-making year in 2004. Consequently, Futong Dongfang is subject to a tax rate of 7.5% for the year ended 31 December 2009. Thereafter, tax rate of 15% applies.

(iv) Under the new tax law and its Implementation Rules, dividends receivable by non-PRC resident enterprises from PRC resident enterprises are subject to withholding tax at a rate of 10% unless reduced by tax treaties or agreements. Under the *Arrangement between the Mainland of China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income*, Hong Kong tax residents which hold 25% or more of a PRC enterprise are entitled to a reduced dividend withholding tax rate of 5%. Pursuant to CaiShui [2008] No. 1 *Notice on Certain Preferential Enterprise Income Tax Policies*, undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. Accordingly, dividends receivable by Futong Technology (HK) Company Limited from Futong Dongfang in respect of its profits earned since 1 January 2008 will be subject to 5% withholding tax.

9. DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the year:

	Years ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Final dividend proposed after the balance sheet date of HK7.8 cents per ordinary share (2009: Nil)	**24,278**	—

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

10. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2010 is based on the profit attributable to equity shareholders of the Company of approximately HK$80.1 million (2009: approximately HK$67.6 million) and weighted average number of 311,250,000 (2009: 231,062,000) shares in issue during the year.

There were no potential dilutive ordinary shares as at 31 December 2009 and 2010.

11. TRADE AND OTHER RECEIVABLES

	At 31 December 2010 HK$'000	2009 HK$'000
Trade and bills receivables	**757,668**	798,846
Less: Allowance for doubtful debts	**(22,111)**	(26,450)
	735,557	772,396
Prepayments	**18,392**	15,124
Deposits	**11,306**	10,404
Other receivables	**4,100**	9,469
	769,355	807,393

Included in trade and other receivables are trade and bills receivables (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	At 31 December 2010 HK$'000	2009 HK$'000
Current	**481,754**	574,596
Less than 1 month past due	**72,190**	98,544
1 to 3 months past due	**103,251**	72,863
More than 3 months past due	**78,362**	26,393
Amounts past due	**253,803**	197,800
	735,557	772,396

Trade and bills receivables are due within 30 - 90 days from the date of billing.

12. TRADE AND OTHER PAYABLES

	At 31 December 2010 HK$'000	2009 HK$'000
Trade payables	**360,135**	533,978
Bills payable	**259,606**	170,719
Amounts due to related parties	**244**	121
Receipts in advance	**35,330**	77,975
Other payables and accruals	**41,039**	58,773
	696,354	841,566

12. TRADE AND OTHER PAYABLES *(Continued)*

An ageing analysis of the trade payables is analysed as follows:

	At 31 December	
	2010	2009
	HK$'000	*HK$'000*
Due within 60 days	**359,618**	528,600
Due after 60 days but within 120 days	**517**	2,928
Due after 120 days	**—**	2,450
	360,135	533,978

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the distribution of enterprise IT products in the PRC where it is one of the industry leaders, as well as in the provision of IT solutions and IT technical support services. The Group is an authorised distributor of enterprise IT products in the PRC for IBM, Oracle, EMC and is also a reseller of IT products from other vendors.

Sales of IBM's products

For the year ended 31 December 2010, revenue from the distribution of IBM's hardware and software products including enterprise servers, system storage products and middleware, and which are often bundled with value-added services amounted to approximately HK$2,408.5 million (2009: approximately HK$2,378.2 million). This marked an increase in revenue by approximately HK$30.3 million. The distribution of IBM's products and provision of related services remained as the primary revenue generator of the Group and accounted for approximately 84.6% of total revenue of the Group for the year ended 31 December 2010 (2009: approximately 92.0%).

The growth in revenue from the sales of IBM's products for the year ended 31 December 2010 was mainly driven by a higher demand for IT solutions from financial institutions resuming capital expenditure following the economic crisis. Revenue from sales of IBM's enterprise servers increased by approximately HK$74.3 million or 4.2% to approximately HK$1,833.8 million compared with last year. Revenue from sales of IBM's system storage products and related services decreased by approximately HK$7.6 million or 2.0% to approximately HK$380.3 million for the year ended 31 December 2010. Sales of IBM's software and related services amounted to approximately HK$194.4 million, a decrease of approximately HK$36.4 million or 15.8%.

Sales of Oracle's products

Database management software and middleware for application servers from Oracle represent the other major category of products distributed by the Group. For the year ended 31 December 2010, sales of Oracle's products and related services amounted to approximately HK$198.3 million, up by approximately HK$96.5 million or 94.8% over last year. It accounted for approximately 7.0% of the Group's total revenue. The Group has observed a stronger demand for Oracle's products from the government bodies and general business sectors.

Sales of EMC's products

Following the completion of share subscription in a subsidiary of the Group with EMC Computer Systems (FE) Limited ("EMC (FE)"), the details of which are set out under the heading "Material investment for the year", the Group has broadened its range of products and services offered to its customers by introducing EMC's storage products, software and related services to the Group's product line and further strengthened its market position as a leading enterprise IT infrastructure solution provider. For the year ended 31 December 2010, revenue from the distribution of EMC's products amounted to approximately HK$24.4 million (2009: Nil).

Sales of other products

Other sources of revenue for the Group included sales of IT products of Huawei Symantec as its authorised distributor, including servers, storage and IT security solutions, as well as sales of other accessories. Revenue from these products and services increased to approximately HK$183.0 million during the year ended 31 December 2010 (2009: approximately HK$84.8 million) which was mainly contributed from sales of Huawei Symantec's products and related services. The Group has been putting more effort in promoting Huawei Symantec's products since it became the authorised distributor of Huawei Symantec in 2008 and the Group recorded a substantial contribution from selling of Huawei Symantec's products during the year ended 31 December 2010.

Provision of services

During the year ended 31 December 2010, the Group has further strengthened its IT technical support service team which aims to expand the Group's IT services capability in the PRC by meeting the needs of the end-users. The team is led by experienced and qualified technicians. For the year ended 31 December 2010, revenue from provision of services amounted to approximately HK$33.0 million (2009: approximately HK$21.4 million), representing an increase of approximately 53.7%.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2010, revenue of the Group increased by approximately HK$260.9 million to approximately HK$2,847.2 million from approximately HK$2,586.3 million for the year ended 31 December 2009. The rise was mainly attributable to an increase in demand for IT solutions from financial institutions after resumption of capital expenditures following the economic crisis.

Gross profit

Gross profit of the Group increased by approximately HK$40.0 million or 18.2%, from approximately HK$219.8 million for the year ended 31 December 2009 to approximately HK$259.8 million for the year ended 31 December 2010. Gross profit margin of the Group increased to approximately 9.1% for the year ended 31 December 2010 from approximately 8.5% for the year ended 31 December 2009. The increase in gross profit margin was attributable to increase in revenue from provision of services to customers.

Distribution costs

During the year ended 31 December 2010, the distribution costs of the Group amounted to approximately HK$113.6 million, an increase of approximately HK$28.4 million or 33.3% compared to the year ended 31 December 2009. This increase was mainly the combined effect of a rise in staff costs due to increase in headcount and travelling cost to support wider sales and service coverage. As at the balance sheet date, there are twenty branch offices located in Hong Kong and the PRC.

Administrative expenses

Administrative expenses of the Group dropped by approximately HK$8.3 million or 21.6%, from approximately HK$38.3 million for the year ended 31 December 2009 to approximately HK$30.0 million for the year ended 31 December 2010. For the year ended 31 December 2009, the Group incurred impairment loss on trade and bills receivables of approximately HK$5.2 million. The Group recorded a reversal of impairment loss on trade and bills receivables of approximately HK$2.2 million for the year ended 31 December 2010.

Finance costs

Finance costs of the Group decreased by approximately HK$4.4 million or 15.8% from approximately HK$27.5 million for the year ended 31 December 2009 to approximately HK$23.2 million for the year ended 31 December 2010. The reduction was mainly attributable to finance cost saved from prompt settlement of the outstanding balances for purchases from IBM.

Profit for the year attributable to equity shareholders of the Company

For the year ended 31 December 2010, profit attributable to equity shareholders of the Company increased by approximately HK$12.5 million or 18.6%, from approximately HK$67.6 million for the year ended 31 December 2009 to approximately HK$80.1 million. This increase in profit was mainly attributable to the increase in revenue during the year as a result of a higher demand for enterprise IT products from financial institutions and increase in gross profit margin.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its daily operations from internally generated cash flows and banking facilities. As at 31 December 2010, the Group had total assets of approximately HK$1,538.7 million and had net assets of approximately HK$519.0 million (2009: approximately HK$1,565.8 million and approximately HK$418.3 million, respectively). The Group's cash and cash equivalents as at 31 December 2010 amounted to approximately HK$275.5 million and bank borrowings amounted to approximately HK$299.4 million (2009: approximately HK$210.9 million and approximately HK$302.3 million, respectively). Taking into account the cash on hand and recurring cash flows from its business, the Group's financial position was healthy, positioning the Group advantageously to expand its core business and to achieve its business objectives.

As at 31 December 2010, bank loans of the Group were made in Hong Kong dollars, United States dollars and Renminbi while cash and cash equivalents were held at Hong Kong dollars, United States dollars and Renminbi.

As at 31 December 2010, the bank loans were repayable within one year or on demand.

As at 31 December 2010, approximately 18% (2009: approximately 35%) of total borrowings were at fixed interests rates.

PLEDGE OF ASSETS

As at 31 December 2010, certain assets of the Group with carrying value of approximately HK$602.0 million (2009: approximately HK$361.3 million) were pledged to banks for banking facilities and bank guarantees granted to the Group.

NET DEBT-TO-CAPITAL RATIO

The Group's net debt-to-capital ratio as at 31 December 2010 was approximately 5% (2009: approximately 22%). This ratio represents total bank loans less cash and cash equivalents divided by total equity.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars, Renminbi and Hong Kong dollars.

As at 31 December 2010, the Group did not enter into any hedging arrangements. However, the management will continue to monitor closely its foreign currency exposure and requirements and to arrange for hedging facilities when necessary.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK7.8 cents for the year ended 31 December 2010 to shareholders whose names appear on the register of members of the Company on 18 May 2011. The proposed final dividend will be paid on or about 10 June 2011, following approval at the forthcoming annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 16 May 2011 (Monday) to 18 May 2011 (Wednesday) (both dates inclusive) during which no transfer of shares of the Company can be registered. In order to qualify for the dividend and determine the entitlement to attend and vote at the forthcoming annual general meeting of the Company, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 13 May 2011 (Friday).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2010, the Group had 440 (2009: 363) employees in the PRC and Hong Kong. Total staff costs amounted to approximately HK$82.4 million (2009: approximately HK$66.7 million).

The Group's employees are remunerated by reference to industry practices and performance and experience of individual employee. Our main focus is to ensure that the Group remains competitive within the market it operates in, to ensure we attract and retain the right talent necessary to grow the business and maximise shareholders' value. We place great emphasis on the development of our people as we firmly believe they are the core to the Group. Through our ongoing training programme, we encourage them to develop their talents and to move up the organisation. We believe these will be mutually beneficial to the Group and its employees.

MATERIAL INVESTMENT FOR THE YEAR

For the year ended 31 December 2010, the Group established an associated company in Beijing with Centrin Data Systems Co., Ltd.. The registered capital of the associated company is RMB50 million. The Group has 40% interest in the associated company and as at the balance sheet date, the Group has contributed its portion of capital of RMB20 million to the registered capital of the associated company. The formation of the associated company will enhance the Group's ability in providing IT technical support services and expanding its range of services.

In December 2010, the Group entered into a subscription agreement with EMC (FE) for the subscription of new shares in a subsidiary of the Group for a total consideration of RMB50,000,000 to which RMB40,500,000 is payable by the Group and RMB9,500,000 is payable by EMC (FE). EMC Corporation and its subsidiaries (collectively "EMC Group") is a well-known international IT vendor and is a provider of information infrastructure systems, software and services with over 30 years history. EMC Group has developed a worldwide customer base and provides technology, products and services to customers in more than 80 countries. EMC (FE) is a member of EMC Group. The subscription is completed in December 2010 and the subsidiary is owned as to 81% by the Group and 19% by EMC (FE). The subsidiary is engaged in the market development of EMC's products in the PRC including its system storage products and software together with the provision of IT technical support services and IT solutions.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

After deducting share issuance expenses, the net proceeds from the initial public offering of the Company's shares in December 2009 amounted to approximately HK$115.9 million. As at 31 December 2010, the Group had used approximately HK$4.4 million for set up of new branch offices, approximately HK$28.2 million for sourcing new enterprise IT products, approximately HK$1.6 million for establishment and expansion of IT solution support centers and approximately HK$3.2 million for set up of training centers. The remaining balance of the net proceeds was placed in short-term deposit bank accounts. The Group will apply the remaining net proceeds in the manner set out in the Prospectus.

PURCHASE, SALE AND REDEMPTION OF THE SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2010.

OUTLOOK

It is the PRC government's policy to encourage the development of the IT industry in the PRC including the promotion of IT applications to enhance productivity in various enterprises, rolling out e-government services as well as other public services, developing an advanced cultural network, nurturing a digital economy, improving information-based facilities in order to enhance the competitiveness of the IT industry in the PRC. The PRC should continue as a relatively vibrant market for IT vendors who can help IT users to achieve efficiency and productivity gains. The Group is well positioned within an industry sector that is steadily growing.

OUTLOOK *(Continued)*

Leveraging on extensive experience of the management team of the Group as a leading provider of quality enterprise IT products, cost effective IT solutions and integrated IT technical support services, the Group intends to enhance its market leading position through (i) extension of its sales network and coverage and diversification of its product distribution portfolio; (ii) broadening of its product sourcing network; and (iii) expansion of its IT services in the PRC.

As at the date of this announcement, the Group has twenty branch offices in the PRC and Hong Kong to provide sales and technical support services to its national wide customers.

Furthermore, the Group has strengthened its range of products and services by introducing EMC Group as a business partner. Aligning with other well-known international IT vendors, the Group has strengthened its market position in providing enterprise IT infrastructure products and services.

The formation of an associated company with Centrin Data Systems Co., Ltd. is also expected to enhance the Group's ability in providing IT technical support services and expand its range of services, particularly in the development of its own system monitoring software, with an aim to generating better return for our shareholders.

CORPORATE GOVERNANCE

For the year ended 31 December 2010, the Board considered that the Company had applied the principles of and had complied with the code provisions set out in the Code on Corporate Governance Practices as stipulated in Appendix 14 to the Listing Rules, except for the deviations from code provision A.2.1.

The Board believes that appointing Mr. Chen Jian as both the chairman and chief executive officer of the Company is conductive to a strong and consistent leadership, which enables the Group to implement decisions and business strategies promptly and efficiently. The Board considers that the present arrangement will not impair the balance of power and authority between the Board and the management of the Company as the proper balance of power and authority is ensured by the operations of the Board, which comprises experienced and high calibre individuals. Furthermore, the Board meets regularly to discuss major issues affecting the operations of the Group and make collective decisions by majority voting to ensure power is not concentrated in any one individual.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions.

Having made specific enquiry by the Company, all Directors have confirmed their compliance with the required standard set out in the Model Code for the year ended 31 December 2010.

AUDIT COMMITTEE

The Group's consolidated results for the year ended 31 December 2010 have been reviewed by its audit committee, which consists of all the three independent non-executive Directors, was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

SCOPE OF WORK PERFORMED BY AUDITORS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2010 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Company (www.futong.com.hk) and the designated issuer website of the Stock Exchange (www.hkexnews.hk). The 2010 annual report of the Company will be despatched to the shareholders of the Company and available on the above websites in due course.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held in Hong Kong on 18 May 2011 (Wednesday). Notice of the annual general meeting will be published and sent to shareholders in due course.

APPRECIATION

I would like to take this opportunity to express our sincere appreciation to our customers, suppliers and shareholders for their continuous support. I would also like to thank my fellow Directors for their valuable contribution and the staff members of the Group for their commitment and dedicated services throughout the year.

For and on behalf of the Board
Futong Technology Development Holdings Limited
Chen Jian
Chairman

Hong Kong, 30 March 2011

As at the date of this announcement, the executive Directors are Mr. Chen Jian, Ms. Zhang Yun and Mr. Guan Tao; and the independent non-executive Directors are Mr. Lee Kwan Hung, Mr. Yuan Bo and Mr. Ho Pak Tai Patrick.