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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)

UNAUDITED INTERIM RESULTS ANNOUNCEMENT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014

HIGHLIGHTS

- Revenue of the Group for the six-month period ended 30 June 2014 amounted to approximately RMB1,496.6 million (six-month period ended 30 June 2013: approximately RMB1,544.2 million), representing a decrease of approximately 3.1% as compared with the corresponding period in 2013.

- Profit attributable to owners of the Company for the six-month period ended 30 June 2014 amounted to approximately RMB15.4 million (six-month period ended 30 June 2013: approximately RMB17.5 million), representing a decrease of approximately 12.2% as compared with the corresponding period in 2013.

- Basic earnings per share for the six-month period ended 30 June 2014 amounted to approximately RMB0.05 (six-month period ended 30 June 2013: approximately RMB0.06).

- The Board does not recommend the payment of an interim dividend for the six-month period ended 30 June 2014.

RESULTS

The board (the "Board") of directors (the "Directors") of Futong Technology Development Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six-month period ended 30 June 2014 together with comparative figures. The condensed consolidated interim financial information has not been audited but has been reviewed by the Company's auditor and the audit committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2014

		Six-month period ended 30 June	
		2014	2013
	NOTES	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*4*	**1,496,605**	1,544,190
Cost of sales		**(1,358,787)**	(1,423,614)
Gross profit		**137,818**	120,576
Other income	*5*	**5,588**	4,565
Other gains and losses	*5*	**(5,418)**	1,436
Distribution and selling costs		**(59,412)**	(57,223)
Administrative expenses		**(22,159)**	(21,266)
Profit from operation		**56,417**	48,088
Finance costs	*6*	**(28,508)**	(22,735)
Share of losses of associates		**(2,860)**	(2,267)
Profit before tax	*7*	**25,049**	23,086
Income tax expenses	*8*	**(10,807)**	(6,324)
Profit and total comprehensive income for the period		**14,242**	16,762
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**15,370**	17,514
Non-controlling interests		**(1,128)**	(752)
		14,242	16,762
Earnings per share (RMB)	*10*		
Basic and diluted		**0.05**	0.06

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2014

	NOTES	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	**30,210**	32,744
Interests in associates		**19,149**	22,009
Deferred tax assets		**18,560**	23,211
		67,919	77,964
CURRENT ASSETS			
Inventories		**356,842**	487,051
Trade and other receivables	12	**1,068,077**	1,335,625
Short term investments	13	**71,840**	—
Pledged deposits		**365,339**	202,190
Cash and cash equivalents		**176,631**	273,465
		2,038,729	2,298,331
CURRENT LIABILITIES			
Trade and other payables	14	**649,738**	1,038,946
Bank borrowings	15	**912,129**	791,124
Tax payable		**6,361**	9,753
		1,568,228	1,839,823
NET CURRENT ASSETS		**470,501**	458,508
TOTAL ASSETS LESS CURRENT LIABILITIES		**538,420**	536,472
CAPITAL AND RESERVES			
Share capital	16	**27,415**	27,415
Reserves		**505,862**	502,786
Equity attributable to owners of the Company		**533,277**	530,201
Non-controlling interests		**5,143**	6,271
		538,420	536,472

1. GENERAL INFORMATION AND BASIS OF PREPARATION

Futong Technology Development Holdings Limited (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 and its principal place of business is located at Units B1901 on level 19 and B2001 on level 20 of Tower B, Chaowaimen Office Center, No. 26 Chaowai Street, Chaoyang District, Beijing, the People's Republic of China (the "PRC").

The directors of the Company considered that the immediate parent and ultimate holding company of the Company is China Group Associates Limited.

The principal activity of the Company is investment holding and its subsidiaries are mainly engaged in distribution of enterprise IT products and provision of services.

The condensed consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34") Interim Financial Reporting issued by the International Accounting Standards Board as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six-month period ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following new Interpretation and amendments to International Financial Reporting Standards ("IFRSs") issued by the IASB:

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC - 21	Levies

The application of the above new Interpretation and amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

IFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the senior executive management of the Company, the chief operating decision maker in order to allocate resources and to assess performance.

The chief operating decision maker considers that the operation of the Group constitutes a single operating 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 segment analysis is presented. The information reported to the senior executive management of the Company for the purpose of resources allocation and assessment of performance are the same as the amounts reported under IFRSs.

4. REVENUE

Revenue represents revenue arising on sale of enterprise IT products and provision of services for the period. The amount of each significant category of revenue recognised during the period is as follows:

	Six-month period ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Sales of goods	**1,380,768**	1,442,585
Provision of services	**115,837**	101,605
	1,496,605	1,544,190

5. OTHER INCOME, GAINS AND LOSSES

	Six-month period ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Other income:		
Interest income	**2,786**	2,648
Government grants (note)	**2,658**	1,917
Others	**144**	—
	5,588	4,565
Other gains and losses:		
Net foreign exchange gain	**2,440**	6,016
Loss on disposal of property, plant and equipment	**(447)**	—
Impairment loss on trade receivables	**(7,111)**	(4,651)
Others	**(300)**	71
	(5,418)	1,436

Note: These government grants are unconditional government subsidies received by the Group from relevant government bodies for encouraging its business development.

6. FINANCE COSTS

	Six-month period ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest expenses on:		
Bank borrowings wholly repayable within five years	**28,508**	22,735

7. PROFIT BEFORE TAX

Profit before tax is arrived at after charging:

	Six-month period ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Staff cost:		
Salary and allowance	**43,300**	43,496
Contributions to retirement benefit schemes	**4,957**	4,705
Equity-settled share-based payment	**—**	46
	48,257	48,247
Other items:		
Cost of inventories recognised as expense	**1,259,661**	1,338,135
Write-down and write-off of inventories, included in cost of sales	**4,828**	3,838
	1,264,489	1,341,973
Operating lease charges in respect of properties	**6,775**	6,971
Depreciation of property, plant and equipment	**4,228**	4,370

8. INCOME TAX EXPENSES

	Six-month period ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong	**1,431**	1,658
PRC Enterprise Income Tax	**1,483**	3,717
Additional provision *(note (iv))*	**3,242**	—
	6,156	5,375
Deferred tax:		
Current period	**4,651**	949
	10,807	6,324

(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 six-month periods ended 30 June 2014 and 2013 was calculated at 16.5% of the estimated assessable profits.

(iii) Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, except as described in (iv) below, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

(iv) During the current period, a subsidiary of the Group operating in China has received a tax notice from relevant tax authority for suspending its entitlement to the preferential income tax rate of 15% that was originally applicable to calendar year 2013 and 2014 respectively upon a tax investigation and dispute regarding the compliance with certain regulations on managing VAT invoices that were prevailing in China in 2012. According to the notice, the subsidiary has made additional provision for income tax using income tax rate of 25% for the calendar year 2013 and for the six-month period ended 30 June 2014 respectively. The subsidiary has then made an appeal to the relevant tax authority in China for reinstating its entitlement to the preferential income tax rate of 15% and expects to obtain a conclusion before end of 2014. In the opinion of the directors of the Company, it is probable that the subsidiary is able to obtain the reinstatement.

9. DIVIDENDS

During the current interim period, a final dividend of HK5.0 cents per share in respect of the year ended 31 December 2013 (six-month period ended 30 June 2013: HK5.0 cents per share in respect of year ended 31 December 2012) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the current interim period amounted to approximately HK$15,563,000, approximately equal to RMB12,294,000 (six-month period ended 30 June 2013: HK$15,563,000, approximately equal to RMB12,508,000).

The directors have determined that no dividend will be paid in respect of the current interim period (six-month period ended 30 June 2013: nil).

10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the six-month period ended 30 June 2014 is based on the profit for the period attributable to owners of the Company of RMB15,370,000 (six-month period ended 30 June 2013: RMB17,514,000) and 311,250,000 (six-month period ended 30 June 2013: 311,250,000) shares in issue during the period.

The computation of diluted earnings per share does not assume the exercise of the Company's share options because the exercise price of those share options was higher than the average market price of the Company's shares for the six-month periods ended 30 June 2014 and 2013.

11. PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2014, the Group spent RMB2,541,000 (six-month period ended 30 June 2013: RMB1,569,000) to acquire furniture, fittings and equipment.

12. TRADE AND OTHER RECEIVABLES

	30 June 2014	31 December 2013
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**1,000,280**	1,252,148
Bills receivables	**24,734**	39,130
Less: allowance for doubtful debts	**(24,806)**	(17,695)
	1,000,208	1,273,583
Prepayment to suppliers	**50,642**	50,798
Deposits	**14,649**	8,702
Other receivables	**2,578**	2,542
	1,068,077	1,335,625

The Group allows an average credit period within 30 to 90 days to its trade customers. The following is an analysis of trade and bills receivables, net of allowance for doubtful debts based on the relevant due date, at the end of the respective reporting periods:

	30 June 2014	31 December 2013
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current	**597,509**	933,392
Amount past due:		
— Less than one month past due	**93,954**	136,420
— 1 to 3 months past due	**92,186**	98,455
— More than 3 months past due	**216,559**	105,316
	402,699	340,191
	1,000,208	1,273,583

13. SHORT TERM INVESTMENTS

	30 June 2014 *RMB'000* **(Unaudited)**	31 December 2013 *RMB'000* (Audited)
Structured deposits	**66,840**	—
Other investment	**5,000**	—
	71,840	—

Structured deposits represent investments in financial products issued by banks in the PRC which are principal-protected with a maturity period of around 180 days at interest rates which are linked to specific exchange rates. The structured deposits are measured at amortised cost in the condensed consolidated financial statements. In the opinion of the directors, the fair values of the embedded derivatives in the structured deposits are insignificant on initial recognition and at the end of the reporting period.

Other investment represent an investment in an asset management plan issued and managed by a non-bank financial institution with a maturity period of around 100 days, which invests in unlisted debts in the PRC, and are measured at amortised cost in the condensed consolidated financial statements.

At 30 June 2014, the carrying amount of structured deposits which have been pledged as security for the borrowing is RMB66,840,000 (31 December 2013: nil).

14. TRADE AND OTHER PAYABLES

	30 June 2014 *RMB'000* **(Unaudited)**	31 December 2013 *RMB'000* (Audited)
Trade payables	**182,300**	448,732
Bills payables	**314,067**	395,492
Receipts in advance	**100,920**	149,966
Other payables and accruals	**52,451**	44,756
	649,738	1,038,946

The average credit period on purchases of goods was 30-90 days. The following is an aged analysis of trade and bills payables based on the invoice date at the end of the respective reporting periods:

	30 June 2014 *RMB'000* **(Unaudited)**	31 December 2013 *RMB'000* (Audited)
Trade payables		
0-60 days	**182,300**	425,659
60-90 days	**—**	5,516
Over 90 days	**—**	17,557
	182,300	448,732
Bills payables, aged within 6 months	**314,067**	395,492

15. BANK BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to RMB532,820,000 (six-month period ended 30 June 2013: RMB493,493,000) and repaid RMB411,815,000 (six-month period ended 30 June 2013: RMB455,129,000). The loans carry interest at variable market rates varied from 1.15% to 7.30% (31 December 2013: 4.58% to 7.30%) per annum.

16. SHARE CAPITAL

	Number of shares *'000*	Share capital *HK$'000*
Authorised:		
At 1 January 2013, 31 December 2013 and 30 June 2014		
Ordinary Shares of HK$0.1 each	2,000,000	200,000
Issued and fully paid:		
At 1 January 2013, 31 December 2013 and 30 June 2014	311,250	31,125
		RMB'000
Presented as		27,415

17. SHARE-BASED PAYMENT TRANSACTION

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a resolution passed on 11 November 2009 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The maximum number of shares that may be granted under the Share Option Scheme and other share option schemes shall not exceed 30% of the number of issued shares of the Company from time to time. Unless approved by the shareholders of the Company in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any grantee if the acceptance of those options would result in the total number of shares issued and to be issued to that grantee on exercise of his options during any 12-month period exceeding 1% of the total shares of the Company (or its subsidiary) then in issue.

17. SHARE-BASED PAYMENT TRANSACTION *(Continued)*

On 15 June 2011, the Company announces that a total of 1,900,000 share options (the "Share Options") to subscribe for shares of HK$0.10 each in the capital of the Company (the "Shares") were granted by the Company to the independent non-executive directors and eligible employees of the Company (collectively, the "Grantees"), subject to acceptance of the Grantees, under the Company's share option scheme adopted by the Company on 11 November 2009. A summary of the grant is set out below:

Exercise price of Share Options	:	HK$1.81 per Share
Closing price of the Shares on the date of grant	:	HK$1.80
Validity period of the Share Options	:	Ten (10) years, commencing on 15 June 2011
Vesting date of Share Options granted to independent non-executive directors of the Company	:	100% of the Share Options granted will vest on 15 December 2011
Vesting date of Share Options granted to eligible employees of the Company	:	30%, 30% and 40% of the Share Options granted will vest on each of 15 December 2011, 15 December 2012 and 15 December 2013, respectively

No options are granted during the current and prior interim period.

None of the share options were exercised, lapsed or cancelled during the current and prior interim period.

The Group recognised the total expense of RMB46,000 for the six-month period ended 30 June 2013 (six-month period ended 30 June 2014: nil) in relation to share options granted by the Company.

18. COMMITMENTS

At the end of each reporting period, the Group was committed to make future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 June 2014	31 December 2013
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within one year	**7,824**	10,139
In the second to fifth year inclusive	**5,962**	7,982
	13,786	18,121

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to three years, at the end of which all terms are renegotiated. None of the leases includes contingent rentals.

19. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties:

The Group entered into the following significant related party transactions during the period.

Name	Relationship
北京深思軟件股份有限公司 Beijing Deep Thought Software Co., Ltd. ("Beijing Deep Thought")*	A company controlled by close family member of Mr Chen Jian, a director of the Company
富通金信有限公司 Futong Technology Advanced Business Service Limited ("Futong Technology")	Associate of the Company
中金富捷數據設備技術有限公司 Centrin-FC Data Device Technology Co. Ltd. ("Centrin-FC")*	Associate of the Company
北京富通金信計算機系統服務有限公司 Beijing Futong Jinxin Computer System Service Co. Ltd. ("Beijing Futong Jinxin")*	Associate of the Company
北京富通經緯科技有限公司 Beijing Futong Jingwei Technology Co. Ltd. ("Beijing Futong Jingwei")*	Associate of the Company

* The English translation of the company names is for reference only. The official names of these entities are in Chinese.

(b) Recurring transactions

	Six-month period ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Sales to Beijing Futong Jinxin	**408**	3,332
Sales to Beijing Deep Thought	**326**	—
Sales to Beijing Futong Jingwei	**598**	—
Purchase from Beijing Futong Jinxin	**1,816**	—
Purchase from Beijing Futong Jingwei	**14,899**	—
Purchase from Centrin-FC	**931**	—

19. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Amounts due from/to related parties

At the end of the reporting period, the Group had the following balances with related parties:

	30 June 2014 *RMB'000* **(Unaudited)**	31 December 2013 *RMB'000* (Audited)
Trade receivables from *(note)*:		
Beijing Deep Thought	**—**	1,172
Centrin-FC	**131**	292
	131	1,464
Trade payables to *(note)*:		
Beijing Futong Jingwei	**3,854**	—
Beijing Futong Jinxin	**—**	2,468
Centrin-FC	**764**	689
	4,618	3,157
Other receivables from *(note)*:		
Centrin-FC	**169**	169
Futong Technology	**124**	123
	293	292
Other payable to *(note)*:		
Beijing Futong Jinxin	**866**	986
Prepayment to suppliers:		
Beijing Futong Jinxin	**1,776**	—
Receipts in advance:		
Beijing Futong Jinxin	**1,275**	2,277
Beijing Deep Thought	**14**	—
	1,289	2,277

Note:

Amounts due from/to related parties are unsecured, interest free and expected to be recovered/settled within one year.

19. RELATED PARTY TRANSACTIONS *(Continued)*

(d) Key management personnel remuneration

The remuneration of directors of the Company and other members of key management during the period were as follows:

	Six-month period ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Salaries and other benefits	**6,748**	9,954
Retirement benefits scheme contributions	**310**	370
Equity-settled share-base payment	**—**	46
	7,058	10,370

Total remuneration was included under staff costs as set out in note 7 to the condensed consolidated financial statements.

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

Sales of IBM's products

For the six-month period ended 30 June 2014 (the "Period"), revenue from the distribution of IBM's hardware and software products, including enterprise servers, system storage products and middleware, which are often bundled with value-added services, amounted to approximately RMB723.9 million (2013: approximately RMB835.2 million), representing a decrease of approximately RMB111.3 million or 13.3% as compared to the corresponding period in 2013. The distribution of IBM's products and provision of related services remained as the Group's primary revenue generator and accounted for approximately 48.4% of the total revenue of the Group for the Period (2013: approximately 54.1%). The Group continuously has aimed to diversify its products range to achieve a better balanced healthy growth and at the same time minimise reliance on the sales of a single brand of products.

Revenue from sales of IBM's enterprise servers amounted to approximately RMB519.6 million (2013: approximately RMB500.1 million), a slight increase of approximately RMB19.5 million or 3.9% as compared with the corresponding period of 2013. Revenue from sales of IBM's system storage products and related services has decreased by approximately RMB56.2 million or 40.0% as compared to the corresponding period in 2013, to approximately RMB84.3 million (2013: approximately RMB140.5 million). Sales of IBM's software and related services has decreased by approximately RMB74.6 million or 38.3% to approximately RMB120.0 million (2013: approximately RMB194.6 million).

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 Period under review, sales of Oracle's products and related services amounted to approximately RMB213.8 million (2013: approximately RMB183.6 million), an increase of approximately RMB30.2 million or 16.4% as compared with the corresponding period of 2013. These sales accounted for approximately 14.3% of the Group's total revenue (2013: approximately 11.9%).

Sales of EMC's products

The revenue derived from sales of EMC's products, and the provision of related value-added services including software development, business consulting and implementation services based on EMC storage virtualisation and business continuity solutions amounted to approximately RMB68.4 million for the Period (2013: approximately RMB109.4 million), a decrease of approximately RMB41.0 million or 37.5% as compared to the corresponding period in 2013.

Sales of Huawei's products

With the continuing maturity in the domestic IT products and the growing market demand of such products, revenue from sales of Huawei's products has continued to grow and is becoming one of the core revenue sources of the Group, and included sales of servers, and storage and IT security solutions, which recorded a dramatic increase of approximately RMB184.8 million or 245.7% to approximately RMB260.0 million for the Period (2013: approximately RMB75.2 million). These sales accounted for approximately 17.4% of the Group's total revenue (2013: approximately 4.9%).

Sales of Apple's products

Revenue from sales of Apple's products amounted to RMB59.3 million for the Period (2013: RMB212.6 million), representing a decrease of 72.1% as compared to the corresponding period in 2013.

Sales of other products

Other sources of revenue for the Group included sales of other software and IT accessories. Revenue from these sources also recorded a significant increase of approximately RMB28.8 million or 108.3% to approximately RMB55.4 million for the Period (2013: approximately RMB26.6 million).

Provision of services

The Group has continued to strengthen its IT technical support service team intending to bolster the Group's IT service capability in the PRC to better meet the rapidly changing needs of end-users. The revenue contributed from the provision of services during the Period continued to record a steady growth of approximately 14.0% as compared to the corresponding period in 2013, reaching approximately RMB115.8 million (2013: approximately RMB101.6 million), representing approximately 7.7% of the Group's total revenue (2013: approximately 6.6%).

FINANCIAL REVIEW

Revenue

For the Period under view, the revenue of the Group decreased by approximately RMB47.6 million or 3.1% as compared to the corresponding period in 2013, to approximately RMB1,496.6 million (2013: approximately RMB1,544.2 million). It was mainly due to the decrease in sales of Apple's products by approximately 153.3 million and decrease in sales of IBM's products by approximately 111.3 million, nevertheless, the dramatic increase in sales of domestic IT products of Huawei that helped to compensate the loss in such sales. The management expected that following the State's policies of encouraging the use of domestic enterprises IT products, the sales of domestic brand IT products will have a more important portion in the sales mix of the Group.

Gross profit

Despite the decrease in revenue, the gross profit of the Group increased by approximately RMB17.2 million or 14.3% from approximately RMB120.6 million for the six-month period ended 30 June 2013 to approximately RMB137.8 million for the Period, it was mainly due to the improvement in gross profit margin from 7.8% to 9.2%.

Other income, other gains and losses

It comprises mainly of interest income on bank deposits, foreign exchange gain, government grants and impairment loss on trade receivables. The net gain from other income, other gains and losses decreased by approximately RMB5.8 million from approximately RMB6.0 million (the comparative figures for the period ended 30 June 2013 has been restated, as the impairment loss on trade receivables of approximately RMB4.7 million was reclassified from administrative expenses to better reflect its nature) to approximately RMB0.2 million, it was mainly due to the decrease in foreign exchange gains of approximately RMB3.6 million as there was a lower appreciation of Renminbi against United States dollars ("USD") during the Period as compared to the corresponding period in 2013. In view of the fluctuation in currency exchange rate between RMB and USD during the Period, the Group decided to defer the inter-group trade receivables settlement via exchange of RMB to USD to settle the trade payables to avoid immediate exchange impact, as the Group believed that the recent acute fluctuation in RMB will be temporary and will recover gradually in the near future. Therefore, the Group has arranged the PRC subsidiaries to issue standby letters of credit by the domestic banks as securities to obtain a cheaper source of USD financing in Hong Kong. Such financing arrangement benefits the Group in two ways, that the Group can enjoy a lower cost of financing and at the same time avoid the low exchange rate at the moment. The Group has obtained short-term bank borrowings under such arrangement amounted to approximately RMB239.6 million (original currency of USD38.7 million) during the Period. Apart from the exchange rate factors, there was an increase in impairment loss on trade receivables of approximately RMB2.4 million because of the management would like to adopt a prudent position toward the collectability of trade receivables and at the same time imposed stringent control on the collectability review prior to the entering of the sales transactions.

Distribution costs

For the Period under review, the distribution costs of the Group amounted to approximately RMB59.4 million, an increase of approximately RMB2.2 million or 3.8% compared to the corresponding period in 2013, this was mainly due to general inflation.

Administrative expenses

Administrative expenses of the Group increased by approximately RMB0.9 million or 4.2%, from approximately RMB21.3 million (restated, as above-mentioned in the heading "other income, other gains and losses) for the six-month period ended 30 June 2013 to approximately RMB22.2 million for the Period. The increase was mainly due to the increase in bank charges of approximately RMB3.3 million which mainly because of the expenditure on structuring fee and handling fee for bank borrowings incurred during the Period. Other administrative expenses were decreased in general.

Finance costs

Finance costs of the Group increased by approximately RMB5.8 million or 25.4% from approximately RMB22.7 million for the six-month period ended 30 June 2013 to approximately RMB28.5 million for the Period. The increase was mainly due to the increase in the borrowing amounts to support financing of the operations of the business.

Income tax expenses

Beijing Futong Dongfang Technology Co., Ltd. ("Futong Dongfang"), a PRC subsidiary of the Company, was recognised as Advanced and New Technology Enterprise and has enjoyed a preferential tax rate of 15% since year 2008. Futong Dongfang has received a Notice of Tax Matters dated 22 April 2014 issued from Beijing City National Tax Bureau of Haidian District (the "Relevant Tax Bureau") which claimed that Futong Dongfang has obtained false special value-added tax invoices from one vendor for offsetting tax during the period 2009 to 2010 that constituted tax evasion, the qualification of Advanced and New Technology Enterprise therefore shall be cancelled during their investigation period, and temporarily suspended the entitlement of preferential tax rate to Futong Dongfang for the year 2013 and 2014. In order to comply with the Notice of Tax Matters, Futong Dongfang has paid the corporate income tax short-fall of year 2013 in accordance with the standard corporate income tax rate 25% in an amount of approximately RMB3.2 million.

Futong Dongfang has engaged legal advisors and tax consultants to assist in this issue, and they opined that the subject special value-added tax invoices were issued based on a real transaction, Futong Dongfang obtained the special value-added tax invoices in a legal way and should not be treated as tax evasion. On 24 July 2014, Futong Dongfang has lodged an administrative reconsideration to the Relevant Tax Bureau requesting the revocation of the Notice of Tax Matters, and restoration of the qualification of Advanced and New Technology Enterprises with preferential tax rate and refund the extra corporate income tax paid. The Relevant Tax Bureau has formally accepted the case and we are waiting for a reply. Further disclosure related to this tax issue is set out in note 8(iv) to the financial statements.

Profit for the period attributable to owners of the Company

Profit attributable to owners of the Company decreased by approximately RMB2.1 million or 12.2%, from approximately RMB17.5 million for the six-month period ended 30 June 2013 to approximately RMB15.4 million for the Period. The decrease was mainly due to the combined effects of the decrease in other income and gains and the increase in operation costs as above-mentioned.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its daily operations from internally generated cash flows and banking facilities. As at 30 June 2014, the Group had total assets of approximately RMB2,106.6 million and had net assets of approximately RMB538.4 million (31 December 2013: approximately RMB2,376.3 million and approximately RMB536.5 million, respectively). The Group's cash and cash equivalents as at 30 June 2014 amounted to approximately RMB176.6 million (approximately RMB68.4 million as at 30 June 2013 and approximately RMB273.5 million as at 31 December 2013). The Group had invested in certain principal guaranteed short-term investments as at 30 June 2014 amounted to approximately RMB71.8 million (31 December 2013: nil) of which RMB66.8 million has been pledged for short-term bank borrowings (31 December 2013: nil). Pledged deposits amounted to approximately RMB365.3 million (31 December 2013: approximately RMB202.2 million) of which RMB275.1 million (31 December 2013: approximately RMB112.3 million) has been pledged for bank borrowings. Bank borrowings amounted to approximately RMB912.1 million (31 December 2013: approximately RMB791.1 million) of which RMB239.6 million (USD38.7 million) were short-term bank loans borrowed during the Period under the arrangement as described under the heading "other income, other gains and losses". Taking into account the cash on hand and recurring cash flows from its business, the Group's financial position remained healthy and was sufficient to achieve its business objectives.

As at 30 June 2014, approximately 9.0% (31 December 2013: approximately 9.5%) of total bank borrowings were at fixed interest rates.

As at 30 June 2014, bank loans of the Group were advanced in Renminbi and United States dollars while cash and cash equivalents were held at Renminbi, United State dollars and Hong Kong dollars.

PLEDGE OF ASSETS

As at 30 June 2014, certain assets of the Group with carrying value of approximately RMB452.0 million (31 December 2013: approximately RMB222.3 million) were pledged to banks for banking facilities and bank guarantees granted to the Group. The increase in pledge of assets was mainly due to the pledged deposits as above-said under the heading "Liquidity and Financial Resources".

NET DEBT-TO-CAPITAL RATIO

The Group's net debt-to-capital ratio as at 30 June 2014 was approximately 72.2 % (as at 31 December 2013 was 75.6%). As those deposits and short-term investments that has been pledged to the banks were for the purpose of obtaining the bank borrowings, and hence should be included as a factor to calculate the ratio, therefore, commencing from this Period, this ratio was calculated as total bank borrowings less bank balances and cash, and relevant pledged deposits and short-term investments 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 foreign currencies, i.e. currencies 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 and Hong Kong dollars.

As at 30 June 2014, the Group did not enter into any hedging arrangements. However, the management has performed some measures to avoid the immediate impact of acute fluctuation in RMB verse USD exchange rate, which has been described under the heading "other income, other gains and losses". The management will continue to monitor closely its foreign currency exposure and requirements and to arrange for hedging facilities when necessary.

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six-month period ended 30 June 2014 (2013: nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2014, the Group had in total 505 (31 December 2013: 527) employees in the PRC and Hong Kong. Total staff costs amounted to approximately RMB48.3 million (2013: approximately RMB48.2 million).

The Group's employees are remunerated by reference to industry practices and performance and experience of individual employees. 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 the employees to develop their talents and to move up the organisation. We believe these will be mutually beneficial to the Group and its employees.

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 RMB102.1 million. As at 30 June 2014, the Group had used approximately RMB10.7 million for setting up of new branch offices, approximately RMB24.8 million for sourcing new enterprise IT products, approximately RMB15.3 million for establishment and expansion of IT solution support centers, approximately RMB10.2 million for setting up of training centers and approximately RMB10.2 million for general working capital purposes of the Group. The remaining balance of the net proceeds was placed in bank deposit accounts. The Group will apply the remaining net proceeds in the manner set out in the prospectus of the Company dated 24 November 2009.

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 during the Period.

OUTLOOK

In the first half of 2014, despite the economic growth in the PRC tends to be stable, based on our understanding on the demand of the customers on one hand, and relied on the Group's product diversification strategy implemented on the other hand, and also our efforts put in the development of more high value-added services, which resulted in a steady performance of the Group during the Period. However, due to the customers' positioning adjustments on the IT products and the increasing demands of information security in the PRC Government departments, which imposed additional uncertainties to our traditional business.

In view of the rapid development of SMEs in mainland China, the group will strive to serve more customers in the sector of small and medium-sized banks; in addition, following the development of cloud computing and the big data concept in the PRC, the Group will strengthen the technical team to provide relevant IT solutions to customers. At the same time, because of the increase in demand in the local customers, we will continue to invest in the development of self-branded software and hardware products, to provide greater choice of domestic IT products. The domestic branded "Huawei" products have enjoyed a remarkable sales growth in this Period, mainly due to the favourable policy implemented by the PRC Government boosting demand for domestic brands. We expect the demand for domestic IT products will be even greater, and this business to rise in the future.

We will continue to focus on the existing core business and to provide more intimate services and self-branded products to our customers through closer communication and understanding of their needs.

CORPORATE GOVERNANCE

During the Period, the Board considered that the Company had applied the principles of and had complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report as stipulated in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, 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 day-to-day 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 Director's 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 during the Period.

REVIEW OF ACCOUNTS

The unaudited condensed consolidated accounts of the Group for the six-month period ended 30 June 2014 have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The auditor's independent review report will be included in the 2014 Interim Report of the Company. The unaudited condensed consolidated accounts of the Group for the six-month period ended 30 June 2014 have also been reviewed by the Audit Committee of the Company.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM 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 2014 interim report of the Company will be despatched to the shareholders of the Company and available on the above websites in due course.

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

Hong Kong, 25 August 2014

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