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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 2015

HIGHLIGHTS

- Revenue of the Group for the six-month period ended 30 June 2015 amounted to approximately RMB1,046.7 million (six-month period ended 30 June 2014: approximately RMB1,496.6 million), representing a decrease of approximately 30.1% as compared with the corresponding period in 2014.
- Profit attributable to owners of the Company for the six-month period ended 30 June 2015 amounted to approximately RMB22.1 million (six-month period ended 30 June 2014: approximately RMB15.4 million), representing an increase of approximately 44.0% as compared with the corresponding period in 2014.
- Basic earnings per share for the six-month period ended 30 June 2015 amounted to approximately RMB0.07 (six-month period ended 30 June 2014: approximately RMB0.05).
- The Board does not recommend the payment of an interim dividend for the six-month period ended 30 June 2015 (six-month period ended 30 June 2014: nil).

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 2015 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 2015

		Six-month period ended 30 June	
		2015	2014
	NOTES	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	4	1,046,698	1,496,605
Cost of sales and services		(927,387)	(1,358,787)
Gross profit		119,311	137,818
Other income and gains	5	6,477	5,588
Other losses	5	(9,799)	(5,418)
Selling and distribution expenses		(56,891)	(59,412)
Administrative expenses		(19,117)	(22,159)
Profit from operations		39,981	56,417
Finance costs	6	(20,533)	(28,508)
Gain recognised on disposal of interests in an associate	12	94	—
Share of losses of associates		(405)	(2,860)
Profit before tax	7	19,137	25,049
Income tax credit (expenses)	8	2,985	(10,807)
Profit and total comprehensive income for the period		22,122	14,242
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		22,129	15,370
Non-controlling interests		(7)	(1,128)
		22,122	14,242
Earnings per share (RMB)	10		
Basic and diluted		0.07	0.05

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2015

		30 June 2015 <i>RMB'000</i> (Unaudited)	31 December 2014 <i>RMB'000</i> (Audited)
	NOTES		
NON-CURRENT ASSETS			
Property, plant and equipment	11	28,323	29,050
Other intangible assets		1,089	—
Interests in associates	12	13,049	13,993
Deferred tax assets		35,554	23,232
		<u>78,015</u>	<u>66,275</u>
CURRENT ASSETS			
Inventories		317,517	271,019
Trade and other receivables	13	919,782	1,169,550
Short term investments	14	47,000	42,550
Pledged deposits		155,505	218,888
Bank balances and cash		98,325	278,414
		<u>1,538,129</u>	<u>1,980,421</u>
CURRENT LIABILITIES			
Trade and other payables	15	578,214	737,311
Bank borrowings	16	456,611	748,356
Tax payable		10,677	2,689
		<u>1,045,502</u>	<u>1,488,356</u>
NET CURRENT ASSETS		<u>492,627</u>	<u>492,065</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>570,642</u></u>	<u><u>558,340</u></u>
CAPITAL AND RESERVES			
Share capital	17	27,415	27,415
Reserves		537,201	524,892
		<u>564,616</u>	<u>552,307</u>
Equity attributable to owners of the Company		564,616	552,307
Non-controlling interests		6,026	6,033
		<u><u>570,642</u></u>	<u><u>558,340</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015

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 provision of enterprise IT infrastructure products, services and solutions.

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 2015 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2014.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (“**IASB**”):

Amendments to IAS 19	Defined Benefit Plans: Employee Contributions
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle

The application of the above 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 provisions of enterprise IT products and services to the customers in the PRC. Accordingly, no segment analysis is presented. The majority of property, plant and equipment is located in the PRC. 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	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Sales of goods	896,905	1,380,768
Provision of services	149,793	115,837
	1,046,698	1,496,605

5. OTHER INCOME, GAINS AND LOSSES

	Six-month period ended 30 June	
	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
Other income and gains:		
Interest income	4,569	2,786
Government grants (<i>note</i>)	1,460	2,658
Others	448	144
	<u>6,477</u>	<u>5,588</u>
Other losses:		
Impairment loss on trade receivables	(8,175)	(7,111)
Write-off of trade receivables	(112)	—
Net foreign exchange (loss) gain	(1,452)	2,440
Loss on disposal of property, plant and equipment	—	(447)
Others	(60)	(300)
	<u>(9,799)</u>	<u>(5,418)</u>

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	
	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
Interest expenses on:		
Bank borrowings wholly repayable within five years	<u>20,533</u>	<u>28,508</u>

7. PROFIT BEFORE TAX

Profit before tax is arrived at after charging:

	Six-month period ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Staff cost:		
Salary and allowance	43,709	43,300
Contributions to retirement benefit schemes	5,017	4,957
	<u>48,726</u>	<u>48,257</u>
Other items:		
Carrying amount of inventories sold	828,490	1,259,661
(Write-back) write-down and write-off of inventories, included in cost of sales	(6,801)	4,828
	<u>821,689</u>	<u>1,264,489</u>
Operating lease charges in respect of properties	6,510	6,775
Depreciation of property, plant and equipment	3,131	4,228
	<u>9,641</u>	<u>11,003</u>

8. INCOME TAX (CREDIT) EXPENSES

	Six-month period ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong	4,229	1,431
PRC Enterprise Income Tax	2,490	1,483
Additional provision (<i>note (iv)</i>)	2,618	3,242
	<u>9,337</u>	<u>6,156</u>
Deferred tax:		
Change in tax rate (<i>note(iv)</i>)	(9,025)	4,651
Credit for the year	(3,297)	—
	<u>(12,322)</u>	<u>4,651</u>
	<u>(2,985)</u>	<u>10,807</u>

8. INCOME TAX (CREDIT) EXPENSES *(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 six-month periods ended 30 June 2015 and 2014 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 2014 onwards. According to the notice, the subsidiary has made additional provision for income tax using income tax rate of 25% for the calendar year 2014 and for the six-month period ended 30 June 2015 respectively.

9. DIVIDENDS

During the current interim period, a final dividend of HK4.0 cents per share in respect of the year ended 31 December 2014 (six-month period ended 30 June 2014: HK5.0 cents per share in respect of year ended 31 December 2013) 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\$12,450,000 (approximately RMB9,820,000) (six-month period ended 30 June 2014: HK\$15,563,000 (approximately RMB12,294,000)).

The directors have determined that no dividend will be paid in respect of the current interim period (six-month period ended 30 June 2014: nil).

10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the six-month period ended 30 June 2015 is based on the profit for the period attributable to owners of the Company of RMB22,129,000 (six-month period ended 30 June 2014: RMB15,370,000) and 311,250,000 (six-month period ended 30 June 2014: 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 2015 and 2014.

11. PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2015, the Group spent RMB3,493,000 (six-month period ended 30 June 2014: RMB2,541,000) to acquire furniture, fittings and equipment.

12. INTERESTS IN ASSOCIATES

In the prior year, the Group held a 40% interest in Futong Technology Advanced Business Service Limited (“**Futong Technology**”) and accounted for the investment as an associate. In January 2015, Futong Technology issued 300 new ordinary shares to its shareholders in proportion to their existing shareholdings at the cash consideration of HK\$1 each. The Group then disposed 3.25% of the interests in Futong Technology to another shareholder of Futong Technology for cash proceeds of HK\$801,084 (equivalent to RMB633,000). This transaction has resulted in the Group recognising a gain of RMB94,000 in profit or loss, calculated as follows:

	<i>RMB '000</i>
Cash proceeds	633
Less: carrying amount of 3.25% investment in associate	539
Gain recognised in profit or loss	94

In April 2015, Futong Technology reduced its paid-up capital from HK\$24,648,740 to HK\$18,486,555 by buying-back and extinguishing 100 out of the 400 ordinary shares held by a shareholder. The capital reduction reduces the interests of the Group in Futong Technology. The Group recognised a deemed loss of RMB254,000. After capital reduction, the interests the Group held in Futong Technology increased from 36.75% to 49%.

13. TRADE AND OTHER RECEIVABLES

	30 June 2015 <i>RMB '000</i> (Unaudited)	31 December 2014 <i>RMB '000</i> (Audited)
Trade receivables	888,140	1,090,645
Bills receivables	24,804	46,101
Less: allowance for doubtful debts	(43,120)	(34,945)
	869,824	1,101,801
Prepayment to suppliers	30,384	42,720
Deposits	17,217	22,452
Other receivables	2,357	2,577
	919,782	1,169,550

13. TRADE AND OTHER RECEIVABLES *(Continued)*

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 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Current	495,316	815,747
Amount past due:		
— Less than one month past due	75,554	87,461
— 1 to 3 months past due	118,189	67,905
— More than 3 months past due	180,765	130,688
	374,508	286,054
	869,824	1,101,801

14. SHORT TERM INVESTMENTS

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Structured deposits	47,000	42,550

Structured deposits represent investments in financial products issued by banks in the PRC which are principal-protected. The interest rates float between 0.0% to 3.4%. The structured deposits are measured at amortised cost in the condensed consolidated financial statements. In the opinion of the directors, the amount of the change in the fair value of the structured deposits are insignificant on initial recognition and at the end of the reporting period.

At 30 June 2015, the carrying amount of structured deposits which have been pledged as security for the borrowing is nil (31 December 2014: RMB42,550,000).

15. TRADE AND OTHER PAYABLES

	30 June 2015 <i>RMB'000</i> (Unaudited)	31 December 2014 <i>RMB'000</i> (Audited)
Trade payables	(180,628)	(319,389)
Bills payables	(296,645)	(223,223)
Receipts in advance	(67,907)	(138,622)
Other payables and accruals	(33,034)	(56,077)
	<u>(578,214)</u>	<u>(737,311)</u>

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 2015 <i>RMB'000</i> (Unaudited)	31 December 2014 <i>RMB'000</i> (Audited)
Trade payables		
0-60 days	(101,755)	(147,660)
60-90 days	(54,676)	(86,486)
Over 90 days	(24,197)	(85,243)
	<u>(180,628)</u>	<u>(319,389)</u>
Bills payables, aged within 6 months	<u>(296,645)</u>	<u>(223,223)</u>

16. BANK BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to RMB315,100,000 (six-month period ended 30 June 2014: RMB532,820,000) and repaid RMB606,845,000 (six-month period ended 30 June 2014: RMB411,815,000). The loans carry interest at variable market rates varied from 2.98% to 7.20% (31 December 2014: 1.15% to 7.30%) per annum.

17. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Authorised:		
At 1 January 2014, 31 December 2014 and 30 June 2015		
Ordinary Shares of HK\$0.1 each	2,000,000	200,000
Issued and fully paid:		
At 1 January 2014, 31 December 2014 and 30 June 2015	311,250	31,125
		RMB'000
Presented as		27,415

18. 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.

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 (" Share Options A ")	: 100% of the Share Options granted will vest on 15 December 2011
Vesting date of Share Options granted to eligible employees of the Company (" Share Options B ")	: 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

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

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

The fair values of Share Options A and Share Options B granted in the year 2011 determined at the dates of grant using the Binomial Model option pricing model were RMB524,000 (equivalent to HK\$630,000) and RMB578,000 (equivalent to HK\$706,000) respectively.

A total of 1,000,000 Share Options B granted by the Company to the eligible employees of the Company were forfeited during the current period due to resignation of the eligible employees (six-month period ended 30 June 2014: nil). The corresponding amount was transferred to share premium in current period.

No expenses were recognised for the six-month period ended 30 June 2015 and 2014 in relation to the share options granted by the Company.

19. 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 2015 <i>RMB'000</i> (Unaudited)	31 December 2014 <i>RMB'000</i> (Audited)
Within one year	11,660	12,936
In the second to fifth year inclusive	5,744	8,213
	17,404	21,149

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.

20. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties:

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

<u>Name</u>	<u>Relationship</u>
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 Mr. Chen Jian, a director of the Company
富通金信有限公司 Futong Technology (<i>Note (iii)</i>)	Associate of the Company
數普金通數據技術有限公司 Centrin-FC Data Device Technology Co. Ltd. (“ Centrin-FC ”)* (<i>Note (i)</i>)	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 ”)* (<i>Note (ii)</i>)	Associate of the Company

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

Notes:

- (i) Centrin-FC, formerly known as “中金富捷數據設備技術有限公司”, changed its Chinese name to “數普金通數據技術有限公司” in March 2015.
- (ii) In January 2015, Beijing Futong Jinxin has reduced the registered capital from RMB20,000,000 to RMB15,000,000.
- (iii) In April 2015, Futong Technology reduced its paid-up capital from HK\$24,648,740 to HK\$18,486,555.

20. RELATED PARTY TRANSACTIONS (Continued)

(b) Recurring transactions

	Six-month period ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Sales to Beijing Futong Jinxin	3,041	408
Sales to Beijing Deep Thought	768	326
Sales to Centrin-FC	180	—
	<u>3,989</u>	<u>734</u>
Purchase from Beijing Deep Thought	3,576	—
Purchase from Centrin-FC	3,511	931
Purchase from Beijing Futong Jinxin	1,960	1,816
	<u>9,047</u>	<u>2,747</u>

(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	31 December
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Trade receivables from (note):		
Beijing Futong Jinxin	2,538	1,005
Beijing Deep Thought	272	—
Centrin-FC	30	30
	<u>2,840</u>	<u>1,035</u>
Trade payables to (note):		
Centrin-FC	1,155	2,468
Beijing Futong Jinxin	988	2,315
Beijing Deep Thought	154	—
	<u>2,297</u>	<u>4,783</u>
Other receivables from (note):		
Futong Technology	156	156
Centrin-FC	—	100
	<u>156</u>	<u>256</u>

20. RELATED PARTY TRANSACTIONS (Continued)

(c) Amounts due from/to related parties (Continued)

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Other payable to (note):		
Beijing Futong Jinxin	866	1,226
Beijing Deep Thought	458	—
	<u>1,324</u>	<u>1,226</u>
Prepayment to suppliers:		
Beijing Futong Jinxin	1,207	434
Centrin-FC	1,200	252
	<u>2,407</u>	<u>686</u>
Receipts in advance:		
Beijing Futong Jinxin	712	832
Beijing Deep Thought	80	80
	<u>792</u>	<u>912</u>

Note:

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

20. 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	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Salaries and other benefits	6,536	6,748
Retirement benefits scheme contributions	286	310
	<u>6,822</u>	<u>7,058</u>

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

21. 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.

22. EVENTS AFTER THE END OF THE REPORTING PERIOD

Subsequent to the end of the current interim period, a subsidiary of the Group has made an appeal to the relevant tax authority in China for reinstating its entitlement to the preferential income tax rate of 15%. By the date of the issuance of the condensed consolidated financial statements, it has entered the stage of proceedings, and the lawsuits are still unsettled.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the provision of enterprise IT infrastructure products, services and solutions in the PRC where it is one of the industry leaders. The Group is also engaged in the research, development and sales of a series of its self-branded enterprises IT software and hardware products. The globally renowned enterprises, IBM, Oracle, Huawei, EMC, Sugon, SAP etc., are important partners of the Group for many years.

Sales of IBM's products

For the six-month period ended 30 June 2015 (the “**Period**”), revenue from the sales of IBM's hardware and software products, including enterprise servers, system storage products and software, which are often bundled with value-added services, amounted to approximately RMB426.3 million (2014: approximately RMB723.9 million), a decrease of approximately RMB297.6 million or 41.1% as compared to the corresponding period in 2014. The sales of IBM's products and provision of related services remained as the Group's primary revenue generator and accounted for approximately 40.7 % of the total revenue of the Group for the Period (2014: approximately 48.4%).

Revenue from sales of IBM's enterprise servers amounted to approximately RMB273.0 million (2014: approximately RMB519.6 million), a decrease of approximately RMB246.6 million or 47.5% as compared with the corresponding period of 2014. Revenue from sales of IBM's system storage products and related services amounted to approximately RMB68.3 million (2014: approximately RMB84.3 million), a decrease of approximately RMB16.0 million or 19.0%. Sales of IBM's software and related services amounted to approximately RMB85.0 million (2014: approximately RMB120.0 million), a decrease by approximately RMB35.0 million or 29.2%.

Sales of Oracle's products

For the Period under review, revenue from sales of Oracle's products, including database management software and middleware for application servers, amounted to approximately RMB142.1 million (2014: approximately RMB213.8 million), a decrease of 33.5% as compared with the corresponding period of 2014. These sales accounted for approximately 13.6% of the Group's total revenue (2014: approximately 14.3%).

Sales of Huawei's products

Revenue from sales of Huawei's products, including servers, storage and IT security solutions, amounted to approximately RMB217.3 million for the Period (2014: approximately RMB260.0 million), a decrease of 16.4% as compared with the corresponding period of 2014. These sales accounted for approximately 20.8% of the Group's total revenue (2014: approximately 17.4%).

Sales of other products and services

Other sources of revenue for the Group including sales of products of EMC, Sugon, SAP and other software and hardware, IT accessories and related services. Revenue from these sources amounted to approximately RMB261.0 million for the Period (2014: approximately RMB298.9 million), a decrease of 12.7% as compared with the corresponding period of 2014.

FINANCIAL REVIEW

Revenue

For the Period under view, the revenue of the Group decreased by approximately RMB449.9 million or 30.1% as compared to the corresponding period in 2014, to approximately RMB1,046.7 million (2014: approximately RMB1,496.6 million). The drops in revenue were mainly due to the slowdown of economic growth in the PRC in general, the changes in customer demands and the continuing effect of the promotion of use of domestic branded enterprise IT products by the PRC government due to information security concerns, such impacts were prominent in the foreign brand IT products.

Gross profit

Despite the decrease in gross profit of the Group by approximately RMB18.5 million or 13.4% to approximately RMB119.3 million for the Period (2014: approximately RMB137.8 million), the gross profit ratio recorded an improvement from 9.2% to 11.4%. The improvement in the gross profit ratio can be attributable to the Group's continues efforts in exploring the needs of each single customer through detail communications, furthermore, due to the improvement in inventory control and the inventory structure therefore has been enhanced, a reversal of inventory provision was recorded during the Period as compared with an increase in inventory provision of the corresponding period in last year.

Other income, other gains and losses

It comprises mainly of interest income on bank deposits, foreign exchange gain/loss, government grants and impairment loss on trade receivables. The net amount from other income, other gains and losses decreased by approximately RMB3.5 million from a net gain of approximately RMB0.2 million for the corresponding period of 2014 to a net loss of approximately RMB3.3 million for the Period, the decrease was mainly due to the decrease in foreign exchange gains of approximately RMB3.9 million. As the trade receivables of the Group were mainly settled in Renminbi (“**RMB**”) while part of the trade payables were settled in United States dollars (“**USD**”), the depreciation of RMB against USD during the Period reduced the gains from foreign exchange.

Selling and distribution expenses

For the Period under review, the selling and distribution expenses of the Group amounted to approximately RMB56.9 million (2014: approximately RMB59.4 million), a decrease of approximately RMB2.5 million or 4.2% compared to the corresponding period in 2014, this can be attributable to the efforts of the cost control measures performed by the management during the Period.

Administrative expenses

Administrative expenses of the Group decreased by approximately RMB3.1 million or 13.7%, from approximately RMB22.2 million for the six-month period ended 30 June 2014 to approximately RMB19.1 million for the Period. The decrease was mainly due to the decrease in bank charges of approximately 3.3 million, as there were structuring fee and handling fee incurred during the corresponding period of last year, in relation to certain bank borrowings, and there were no such bank charges incurred for the Period.

Finance costs

Finance costs of the Group significantly decreased by approximately RMB8.0 million or 28.0% from approximately RMB28.5 million for the six-month period ended 30 June 2014 to approximately RMB20.5 million for the Period. The decrease was mainly due to the improvement of cash flow and less borrowing was needed during the Period.

Income tax expenses

With reference to the tax issue mentioned in the 2014 annual report under the section “Management Discussion and Analysis” with heading “Income Tax Expenses”, the qualification of Advanced and New Technology Enterprise of Beijing Futong Dongfang Technology Co., Ltd. (“**Futong Dongfang**”), a PRC subsidiary of the Company, was obtained in December 2014 and will be valid for three consecutive years. Futong Dongfang has paid its 2014 income tax based on the preferential tax rate to the relevant tax authority during the Period.

Futong Dongfang has received a notice of tax matter dated 27 May 2015 (the “**Tax Notice**”) issued from the relevant tax authority in China for suspending its entitlement to the preferential income tax rate of 15% that was originally applicable to calendar year 2014 onwards. Subsequent to the end of the current interim period, Futong Dongfang has made an appeal to the relevant tax authority for reinstating its entitlement to the preferential income tax rate of 15%. By the date of the issuance of the condensed consolidated financial statements, the issue has entered the stage of proceedings, and the lawsuits are still unsettled. Further disclosures related to this tax issue are set out in note 8(iv) and note 22 to the financial statements.

According to the Tax Notice, Futong Dongfang has made additional provision for income tax using income tax rate of 25% for calendar year 2014 and for the six-month period ended 30 June 2015 respectively. The Group has also used income tax rate of 25% to recalculate the deferred taxation of Futong Dongfang, and approximately RMB9.0 million additional deferred tax assets were credited to the income tax expenses due to the adjustment of the 10% income tax rate difference on the deductible temporary difference.

Profit for the period attributable to owners of the Company

Profit attributable to owners of the Company increased by approximately RMB6.7 million or 44.0%, from approximately RMB15.4 million for the six-month period ended 30 June 2014 to approximately RMB22.1 million for the Period. The increase was mainly due to the combined effects of an one-off deferred tax assets adjustment in the income tax expenses and the decrease in the 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 2015, the Group had total assets of approximately RMB1,616.1 million and had net assets of approximately RMB570.6 million (31 December 2014: approximately RMB2,046.7 million and approximately RMB558.3 million, respectively). The Group's bank balances and cash as at 30 June 2015 amounted to approximately RMB98.3 million (approximately RMB176.6 million as at 30 June 2014 and approximately RMB278.4 million as at 31 December 2014). The Group had invested in certain principal guaranteed short-term investments amounted to 47.0 million as 30 June 2015 (approximately RMB71.8 million as at 30 June 2014 and approximately RMB42.6 million as at 31 December 2014). Bank borrowings amounted to approximately RMB456.6 million (31 December 2014: approximately RMB748.4 million). 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 2015, 0.7% (31 December 2014: approximately 7.0%) of the total bank borrowings were at fixed interest rates.

As at 30 June 2015, bank loans of the Group were advanced in RMB and USD while cash and cash equivalents were held at RMB, USD and Hong Kong dollars.

PLEDGE OF ASSETS

As at 30 June 2015, certain assets of the Group with carrying value of approximately RMB174.9 million (31 December 2014: approximately RMB281.1 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 30 June 2015 was approximately 44.2 % (as at 31 December 2014 was 54.7%). 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 USD and Hong Kong dollars.

As at 30 June 2015, 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.

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six-month period ended 30 June 2015 (2014: nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2015, the Group had in total 500 (31 December 2014: 520) employees in the PRC and Hong Kong. Total staff costs amounted to approximately RMB48.7 million (for the six-month period ended 30 June 2014: approximately RMB48.3 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 2015, the Group had used approximately RMB10.7 million for setting up of new branch offices, approximately RMB25.5 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

The IT market has undergone tremendous changes in the first half of 2015, as major IT enterprises were strategically adjusting their business models to customer-needs orientated. A new generation of technology has begun to enter the business, including cloud computing, big data, etc., which brings brand-new user experiences and opportunities to the market, while also creating new challenges to management of the IT companies.

So far this year, the overall performance of the industry was temporarily impacted to different extents by the adjustments of their business models during the transitional period. From the half-year financial it can be observed that the Group's business encountered some pressure on the revenue and, of course, this was a general issue faced by most IT companies undergoing business transformation. However, we believe that the situation is temporary, and are confident that the Group is advancing in the right direction.

The Group will continue to participate in national industry innovation and with an ultimate goal to provide the best services to its customers. We will continue to devote efforts to develop and promote our self-branded software and hardware products. The Group has recently established a new big data division to explore the opportunities in this emerging market, as it aims to provide one-stop IT solution services to our valued customers. The Group will follow the pace of development of the industry, to develop new business and products where appropriate, in order to cope with the needs of the customers.

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 conducive 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 2015 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 2015 interim report of the Company. The unaudited condensed consolidated accounts of the Group for the six-month period ended 30 June 2015 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 2015 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, 21 August 2015

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.