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 2017

FINAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Futong Technology Development Holdings Limited (the "**Company**") is pleased to announce the following audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2017 together with comparative audited figures for the corresponding period in 2016, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

		Year ended 31 December	
	Notes	**2017**	2016
		RMB'000	*RMB'000*
Revenue	*5*	**3,662,931**	3,441,198
Cost of sales and services		**(3,440,894)**	(3,194,407)
Gross profit		**222,037**	246,791
Other income	*6*	**9,302**	9,375
Other gains and losses	*6*	**(23,978)**	(14,612)
Selling and distribution expenses		**(139,469)**	(134,596)
Administrative expenses		**(51,915)**	(47,108)
Profit from operations		**15,977**	59,850
Finance costs	*7*	**(45,263)**	(33,086)
Loss recognised on disposal of interests in associates		**—**	(647)
Share of loss of associates		**(85)**	(1,234)
(Loss)/profit before income tax expense	*8*	**(29,371)**	24,883
Income tax expense	*9*	**(10,523)**	(8,255)
(Loss)/profit and total comprehensive income for the year		**(39,894)**	16,628

	Notes	**Year ended 31 December** **2017** ***RMB'000***	2016 *RMB'000*
(Loss)/profit and total comprehensive income for the year attributable to:			
Owners of the Company		**(39,924)**	17,667
Non-controlling interests		**30**	(1,039)
		(39,894)	16,628
(Loss)/earnings per share			
— Basic and diluted (RMB)	*11*	**(0.13)**	0.06

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	Notes	**At 31 December 2017 RMB'000**	2016 *RMB'000*
Non-current assets			
Property, plant and equipment	*12*	**26,990**	25,883
Other intangible assets		**2,752**	3,817
Interests in associates		**6,764**	7,326
Deferred tax assets		**29,033**	28,701
Total non-current assets		**65,539**	65,727
Current assets			
Inventories		**309,443**	433,486
Trade, bills and other receivables	*13*	**906,128**	1,266,901
Tax recoverable		**—**	1,117
Pledged deposits		**138,468**	226,698
Bank balances and cash		**237,207**	172,648
Total current assets		**1,591,246**	2,100,850
Current liabilities			
Trade, bills and other payables	*14*	**635,677**	981,246
Bank and other borrowings		**483,866**	603,728
Tax payable		**802**	—
Total current liabilities		**1,120,345**	1,584,974
Net current assets		**470,901**	515,876
NET ASSETS		**536,440**	581,603
CAPITAL AND RESERVES			
Share capital		**27,415**	27,415
Reserves		**504,368**	549,562
Attributable to owners of the Company		**531,783**	576,977
Non-controlling interests		**4,657**	4,626
TOTAL EQUITY		**536,440**	581,603

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL INFORMATION

Futong Technology Development Holdings Limited (the "**Company**") is a limited liability company incorporated in the Cayman Islands as an exempted company. The address of the Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Rooms 2406-2412, 24th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**SEHK**").

The Company and its subsidiaries (hereinafter collectively referred to as the "**Group**") are principally engaged in provision of enterprise IT infrastructure products and services. There were no significant changes in the business during the year.

As at 31 December 2017, the Company's immediate and ultimate parent is China Group Associates Limited which was incorporated in the British Virgin Islands (the "**BVI**"). Its ultimate controlling party is Mr. Chen Jian, who is also the chairman and executive director of the Company.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

2.1 Adoption of new or revised IFRSs — effective 1 January 2017

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IFRS 12, Disclosure of Interests in Other Entities

Except as explained below, the adoption of these new and amended IFRSs did not result in substantial changes to the Group's accounting policies and had no material impact on how the results and financial positions for the current and prior periods have been prepared and presented.

Amendments to IAS 7 — Disclosure Initiative

The amendments introduce an additional disclosure that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments has led to additional disclosure presented in the note to the financial statements.

2.2 New or revised IFRSs that have been issued but are not yet effective

The following new or revised IFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards[1]
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IAS 28, Investments in Associates and Joint Ventures[1]
IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRS 2	Classification and Measurement of Share-Based Payment Transactions[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IFRS 15	Revenue from Contracts with Customers (Clarifications to IFRS 15)[1]

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

Except for IFRS 9, IFRS 15 and IFRS 16, the directors expect that the adoption of the other standards above will have no material impact on the financial statements in the year of initial application. The nature of the impending changes in accounting policy on the adoption of IFRS 15, IFRS 9 and IFRS 16 are described below.

IFRS 9 — Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at Fair Value through Other Comprehensive Income ("**FVTOCI**") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at Fair Value through Profit or Loss ("**FVTPL**").

IFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in IAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

IFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from IAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities.

The directors of the Company anticipate that the application of IFRS 9 in the future will have an impact on amounts reported in respects of the Group's financial performance and financial assets (e.g. impairment on trade and bills receivables) resulting from early provision of credit losses using the expected loss impairment model under assessing IFRS 9 instead of incurred loss model under IAS 39. The directors estimate that there will be no material impact on the Group's financial performance and position upon the appreciation of IFRS 9 in the year of initial adoption.

Amendments to IFRS 9 — Prepayment Features with Negative Compensation

The amendments clarify that prepaid financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met — instead of at fair value through profit or loss.

IFRS 15 — Revenue from Contracts with customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 supersedes existing revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

IFRS 15 requires the application of a 5 steps approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

IFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under IFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The Group recognises revenue from the following major sources:

- Sale of enterprise IT products, including servicing fees included in the price of products sold; and
- Provision of services in relation to enterprise IT products

The directors of the Company have preliminarily assessed that the services represent a separate performance obligation from the sale of enterprise IT products and accordingly revenue will be recognised for each of these performance obligation when control over the corresponding goods and services in transferred or services have been provided to the customer.

The directors of the Company consider that the performance obligations are similar to the current identification of separate revenue components under IAS 18, however, the allocation of total consideration to the respective performance obligations will be based on relative fair values upon application of IFRS 15 which will potentially affect the timing and amounts of revenue recognition. It is not practicable to provide a reasonable financial estimate of the effect until the directors of the Company complete the detailed review. In addition, the application IFRS 15 in the future may result in more disclosures in the consolidated financial statements.

Amendments IFRS 15 — Revenue from Contracts with Customers (Clarifications to IFRS 15)

The amendments to IFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

IFRS 16 — Leases

IFRS 16, which upon the effective date will supersede IAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As at 31 December 2017, the Group's total future minimum lease payments under non-cancellable operating lease amounted to RMB16,525,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding lease liability in respect of all the leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirement may result changes in measurement, presentation and disclosure as indicated above.

3. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations (hereinafter collectively referred to as "**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The consolidated financial statements have been prepared under historical cost at the end of each reporting period.

4. SEGMENT REPORTING

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 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 provision of enterprise IT products and services to customers in the People's Republic of China ("**PRC**"). Accordingly, no segment analysis is presented. The majority of property, plant and equipment is located in the PRC. The information reported to senior executive management of the Company for the purpose of resources allocation and assessment of performance are same as the amounts reported under IFRSs.

The Group's customer base is diversified and there are no customers whose transactions have exceeded 10% of the Group's revenue in 2017 and 2016.

5. REVENUE

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Sales of enterprise IT products	**3,351,279**	3,159,985
Provision of services	**311,652**	281,213
	3,662,931	3,441,198

The amount of each significant category of revenue arising on sale of enterprise IT products recognised during the year is as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Sales of Huawei products	**1,696,946**	1,292,787
Sales of IBM products	**768,031**	865,902
Sales of Oracle products	**494,980**	427,978
Sales of other products	**391,322**	573,318
	3,351,279	3,159,985

6. OTHER INCOME, OTHER GAINS AND LOSSES

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Other income		
Interest income	**2,152**	2,377
Government grants *(note)*	**4,963**	3,397
Others	**2,187**	3,601
	9,302	9,375
Other gains and losses		
Gain on disposals of property, plant and equipment	**202**	692
Impairment loss on trade receivables	**(14,047)**	(9,017)
Foreign exchange losses	**(8,965)**	(5,719)
Others	**(1,168)**	(568)
	(23,978)	(14,612)

Note:

These grants are unconditional and are received by the Group from relevant government bodies for the purpose of giving immediate financial support to the Group's operation.

7. FINANCE COSTS

All balances represent interest on borrowings which are wholly repayable within five years.

8. (LOSS)/PROFIT BEFORE INCOME TAX EXPENSE

(Loss)/profit before income tax expense is arrived at after charging/(crediting):

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Auditor's remuneration:		
— Audit service	**1,680**	2,000
— Non-audit service	**200**	199
Amortisation of other intangible assets	**941**	2,166
Cost of inventories recognised as an expense, net of write back of inventories	**3,159,657**	2,953,941
Research and development costs	**5,723**	2,108
Depreciation of property, plant and equipment	**4,407**	5,098
Minimum lease payments paid under operating lease in respect of rented premises	**11,630**	13,037
Staff costs (including directors' emoluments):		
— Salaries and wages	**104,355**	107,514
— Contributions to retirement benefit scheme	**11,185**	10,964
— Equity-settled share-based payments	**372**	777
	115,912	119,255

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. These subsidiaries are required to contribute a 9% to 23% (2016: 13% to 20%) of payroll costs (subject to a cap) to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% (2016: 5%) of relevant payroll costs (subject to a cap) to the scheme, which contribution is matched by employees.

Total cost charged to profit or loss of RMB11,185,000 (2016: RMB10,964,000) represents contributions payable to these schemes by the Group in respect of the year ended 31 December 2017. As at 31 December 2017 and 2016, the amount due but not paid to the schemes is insignificant.

9. INCOME TAX EXPENSE

Income tax expense in the consolidated statement of profit or loss and other comprehensive income represents:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current tax — Hong Kong Profits Tax		
Tax for the year	—	3,005
Over provision in respect of prior years	**(687)**	—
	(687)	3,005
Current tax — PRC income tax		
Tax for the year	**11,542**	4,658
Tax refund *(note (iv))*	—	(4,186)
Reversal of provision *(note (iv))*	—	(2,618)
	11,542	(2,146)
Deferred tax		
Change in tax rate *(note (iv))*	—	9,192
Credit for the year	**(332)**	(1,796)
Income tax expense	**10,523**	8,255

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

(ii) Hong Kong Profits Tax is calculated at 16.5% (2016:16.5%) of the estimated assessable profit.

(iii) Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the Company's subsidiaries in the PRC is 25% in 2017 and 2016.

(iv) A subsidiary of the Company in the PRC has been granted continuously on a three year interval with a qualification of high-tech enterprise which entitles this subsidiary a preferential income tax rate of 15%, for the years between 2014 and 2016. However, in 2015 and 2014, this subsidiary received tax notices from the relevant tax authority for suspending such entitlement as a result of a compliance issue with certain regulations over the VAT invoices then prevailing in the PRC in 2012 and the then applicable income tax rate for this subsidiary was 25% from 2014 to 2016.

The subsidiary settled the compliance issue with the tax authority in 2016 that has resulted in the reinstatement of the applicable preferential tax rate of 15% from 2013 to 2015. As a result, in 2016, this subsidiary received a tax refund of approximately RMB4.2 million in respect of additional income tax previously paid based on the tax rate of 25%. In addition, income tax payable for 2014 of approximately RMB2.6 million was reversed as income tax credit by this subsidiary. In 2017, the subsidiary has obtained a reply from the tax authority for the continuous use of the preferential tax rate of 15% in 2016 according to the above-mentioned entitlement under the qualification of high-tech enterprise. Accordingly, in the opinion of the directors of the Company, this subsidiary is subjected to a preferential tax rate of 15% for year 2016 and would be granted with the qualification of high-tech enterprise and enjoy the preferential tax rate of 15% for year 2017 and onwards, after provision of certain filings to the relevant authorities by this subsidiary. As a result, the Group has revised the estimate of future applicable income tax from 25% to 15% and an amount of RMB9,192,000 of deferred tax charge resulting from such change of tax rate is recognised in the profit or loss in year 2016.

10. DIVIDENDS

	2017	2016
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
2016 final dividend: HK1.9 cents, equivalent to RMB1.6 cents (2015 final dividend: HK2.8 cents, equivalent to RMB2.4 cents) per share	**5,123**	7,549

For the year ended 31 December 2017, the directors do not recommend the payment of a final dividend. For the year ended 31 December 2016, a final dividend of HK1.9 cents (approximately equivalent to RMB1.6 cents) per share, totaling approximately HK$5,914,000 (approximately equivalent to RMB5,123,000) based on the total number of issued ordinary shares as at the date of issuance of the consolidated financial statements had been proposed and approved by the shareholders in the general meeting.

11. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share is based on the following data:

	2017	2016
	RMB'000	*RMB'000*
(Loss)/earnings for the purpose of basic and diluted (loss)/earnings per share	**(39,924)**	17,667
	'000	*'000*
Number of ordinary shares for the purpose of basic (loss)/earnings per share	**311,250**	311,250
Effect of dilutive potential ordinary shares:		
Share options	**—**	107
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	**311,250**	311,357

For the year ended 31 December 2017, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options as the exercise price of these options was higher than the average market price of shares for the year.

12. PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2017, the Group spent approximately RMB6,866,000 (2016: RMB4,307,000) to acquire leasehold improvements, furniture, fixtures and equipment and motor vehicles.

13. TRADE, BILLS AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**835,283**	1,195,914
Less: allowance for doubtful debts	**(62,443)**	(48,595)
	772,840	1,147,319
Bills receivables	**60,378**	79,176
Total trade and bills receivables	**833,218**	1,226,495
Prepayments	**28,461**	24,660
Deposits	**15,297**	11,122
Other receivables	**29,152**	4,624
	906,128	1,266,901

The Group allows an average credit period of 30-90 days (2016: 30-90 days) to its trade customers. For certain major customers such as the state owned enterprises, their credit term will be negotiated by the management individually. The following is an ageing analysis of trade and bills receivables net of allowance for doubtful debts as at the end of each reporting period based on invoice date.

	2017	2016
	RMB'000	*RMB'000*
0-30 days	**406,856**	515,372
31-60 days	**113,068**	233,661
61-90 days	**103,604**	122,868
More than 90 days	**209,690**	354,594
	833,218	1,226,495

Included in the Group's trade and bills receivables balance are debtors with aggregate carrying amount of RMB219,853,000 (31 December 2016: RMB272,641,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Ageing of trade and bills receivables which are past due but not impaired is as follows:

	2017 *RMB'000*	2016 *RMB'000*
Less than 1 month past due	**74,006**	124,060
1 to 3 months past due	**57,856**	43,656
More than 3 months past due	**87,991**	104,925
Total	**219,853**	272,641

14. TRADE, BILLS AND OTHER PAYABLES

	2017 *RMB'000*	2016 *RMB'000*
Trade payables	**325,065**	512,329
Bills payables	**109,216**	182,876
Receipts in advance	**183,952**	205,792
Other payables and accruals	**17,444**	80,249
	635,677	981,246

All of the above balances are expected to be settled within one year.

Included in trade payables are trade creditors with the following ageing analysis, based on invoice date at the end of reporting period:

	2017 *RMB'000*	2016 *RMB'000*
Current or less than 1 month	**93,735**	285,146
1 to 3 months	**81,614**	72,201
More than 3 months	**149,716**	154,982
	325,065	512,329

Bills payables are normally issued with a maturity of not more than 120 days (2016: 120 days). The bills payables were secured by leasehold land and buildings with carrying amount of RMB17,810,000 (2016: RMB17,950,000) and pledged deposit of RMB34,228,000 (2016: RMB94,218,000) as at 31 December 2017. The available amount of the banking facility for issuance of bills not yet utilised as at 31 December 2017 was approximately RMB280,360,000 (2016: RMB295,055,000).

The average credit period on purchases of goods was 30 - 90 days (2016: 30 - 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the acceptable timeframe.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group specialises mainly in providing enterprise IT infrastructure products, cloud products, cloud services, corporate applications and solutions in the PRC and is an industry leader in its field. It also undertakes research, development and sale of a series of its own brand enterprise IT products. Globally renowned enterprises such as IBM, Huawei and Oracle, etc., have been important long-standing partners of the Group.

Sales of IBM products

For the year ended 31 December 2017 (the "**Year**"), the revenue from sales of IBM's hardware and software products (including enterprise servers, system storage products and software, often bundled with value-added services) amounted to approximately RMB768.0 million (2016: approximately RMB865.9 million). The slight decrease in revenue from sales of IBM products as compared with last year was mainly due to a decline in market demand for IBM enterprise level infrastructure servers. IBM itself has been adjusting its business globally, making deployment to prepare for the development of cognitive service business. Nonetheless, the Group expects the proportion of its sales of IBM products remain stable among similar IBM products. In addition, the Group looks forward to cooperating with IBM in the cognitive service field in the future.

Sales of IBM products and provision of related services remained a major, though no longer the primary, revenue generator of the Group, accounting for approximately 21.0% of the Group's total revenue for the Year (2016: approximately 25.2 %).

Sales of Huawei products

During the Year, the distribution business of Huawei products (sale of servers, storage and cloud computing products) continued to record strong growth and was the major revenue generator of the Group for the second consecutive year. In the Year, it recorded a 31.3% increase in revenue, or RMB404.2 million, to approximately RMB1,696.9 million (2016: approximately RMB1,292.8 million). The amount accounted for approximately 46.3% of the Group's total revenue for the Year (2016: approximately 37.6%). The continual growth in revenue was owed to Huawei's determination to increase its market share in recent years, by strengthening its already formidable distribution network and rallying end-customers with highly competitive product prices. However, since the business is in the traditional low profit margin distribution category, the Group worked hard during the Year to strike a balance between capital allocation and growing the business.

Sales of Oracle products

For the Year, revenue from sales of Oracle products and related services (including database management software, middleware for application servers and systems products) amounted to approximately RMB495.0 million (2016: approximately RMB428.0 million), an increase of 15.7% as compared with the corresponding period of 2016. The amount accounted for approximately 13.5% of the Group's total revenue (2016: approximately 12.4%). Oracle products enjoy market leadership, and in recent years, the company has shifted its focus to cloud business in the global market. The Group has also increased investment in cloud business, hence also recorded notable growth in revenue from the particular type of products.

Sales of other products

Other sources of revenue of the Group included sales of products of Sugon, Lenovo, EMC, SAP, VMware, the Group's own-brand products and other IT products and accessories. Revenue from these income sources amounted to approximately RMB391.3 million, a decrease of approximately RMB182.0 million, or 31.7% (2016: approximately RMB573.3 million). Among the different products sold in this category, Sugon products sales declined by RMB116.8 million, or 29.7%, to approximately RMB276.4 million. Sales of other products accounted for approximately 10.7% of the Group's total revenue (2016: approximately 16.7%). During the Year, the Group focused on developing its own brand products as well as targeting at transforming its businesses. It will direct resources and increase investment in digitalisation business like cloud computing products, Artificial Intelligence, corporate application and related services in the future.

Provision of services

Revenue from provision of services amounted to approximately RMB311.7 million (2016: approximately RMB281.2 million), representing approximately 8.5% of the Group's total revenue (2016: approximately 8.2%). During the Year, the Group put more resources into developing digitalization transformation solutions for corporate customers thereby strengthened its capabilities to help customers transform their businesses.

FINANCIAL REVIEW

Revenue

For the Year, revenue of the Group increased by approximately RMB221.7 million or 6.4% as compared with the corresponding period in 2016, to approximately RMB3,662.9 million (2016: approximately RMB3,441.2 million). The increase was mainly due to increases in sales of products of Huawei and Oracle. Huawei continued its aggressive approach by offering competitive price to end users to seize market share from both international brands and local competitors whilst Oracle still enjoyed the increase demand in its industry-leading products.

Gross profit

Gross profit of the Group reduced by approximately RMB24.8 million or 10.0% to approximately RMB222.0 million for the Year (2016: approximately RMB246.8 million) while gross profit ratio decreased from 7.2% to 6.1%. The drop in gross profit ratio was mainly contributed by the increase in number of domestic brand products with lower profit margin, the discontinuance of certain sales programmes by a supplier in second half of 2016 that led to a reduction of rebate received by the Group in 2017 and the increase in provision of obsolete stocks relating to certain aged stocks (over 2 years) which are no longer economically saleable due to the technological improvement in new products.

Other income, other gains and losses

This comprises of mainly interest income from bank deposits, government grants, foreign exchange losses and impairment loss on trade receivables. For the Year, net losses from other income, other gains and losses amounted to approximately RMB14.7 million (2016: net loss of approximately RMB5.2 million), representing an increase in net loss of approximately RMB9.5 million. This increase was mainly due to the increase in provision of doubtful debt following a more prudent approach adopted by management in tightening the recovery time before commencing legal proceedings on long outstanding debts and the increase in exchange loss.

Selling and distribution expenses

For the Year, selling and distribution expenses of the Group amounted to approximately RMB139.5 million (2016: approximately RMB134.6 million), representing an increase of approximately 3.6% compared with the corresponding period in 2016. The increase was basically in line with the rate of increase in revenue and was mainly due to the combined effect of the rise in staff costs with salary increments in line with general inflation and maintaining remuneration packages competitive with the market, and the increase in shipping expenses.

Administrative expenses

Administrative expenses of the Group for the Year amounted to approximately RMB51.9 million (2016: approximately RMB47.1 million), representing 10.2% increase as compared with the corresponding period in 2016. The increase was mainly due to the increase in research and development cost for the development of our own brand products as part of the expenditure has been capitalized in 2016, the non-recurring professional fees incurred on the communication with The Stock Exchange of Hong Kong, and one off compensation cost incurred under the streamlining exercise of the Group on laying those staffs working primarily on the sales programmes being discontinued by a supplier in second half of 2016.

Finance costs

Finance costs of the Group increased by approximately RMB12.2 million or 36.8% from approximately RMB33.1 million for the year ended 31 December 2016 to approximately RMB45.3 million for the Year. The increase was mainly due to increase in the utilization of funds advanced by non-financial institutions with higher interest rates as compared to that of the corresponding period in 2016.

Income tax expense

Income tax expenses of the Group increased by approximately RMB2.3 million or 27.5% from approximately RMB8.3 million for the year ended 31 December 2016 to approximately RMB10.5 million for the Year. It was mainly due to combined effect of one of the group companies incurred profit for the Year and the reversal of deferred tax assets related to the tax loss of a subsidiary because of its unpredictability of future profit stream.

Loss for the year attributable to owners of the Company

For the Year, the loss attributable to owners of the Company amounted to approximately RMB39.9 million (2016: profit attributable to owners approximately RMB17.7 million). The loss was primarily due to the combined effects of (i) the reduction of rebate received by the Group in 2017 (ii) increase in provision of obsolete stocks and doubtful debts and (iii) increase in finance costs as mentioned above. Although there was short term impact to the earnings, the more prudent approach adopted on the valuation of stocks and assessment on the recoverability of accounts receivable ensures a high quality of Group's assets.

Liquidity and Financial Resources

The Group generally finances its daily operations from internally generated cash flows and banking facilities. As at 31 December 2017, the Group had total assets of approximately RMB1,656.8 million and net assets of approximately RMB536.4 million (31 December 2016: approximately RMB2,166.6 million and approximately RMB581.6 million, respectively). In respect of the trade receivables of the Group amounted to approximately RMB772.8 million (31 December 2016: approximately RMB1,147.3 million), net of allowance for doubtful debts of approximately RMB62.4 million (31 December 2016: approximately RMB48.6 million), the management will perform a regular review and implement stringent control measures on trade receivables with a view to ensuring the recovery of trade receivables on the due dates and closely monitoring the Group's liquidity. The Group's bank balances and cash amounted to approximately RMB237.2 million as at 31 December 2017 (approximately RMB172.6 million as at 31 December 2016). Bank and other borrowings amounted to approximately RMB483.9 million (31 December 2016: approximately RMB603.7 million). Taking into account the cash on hand and recurring cash flow from its business, the Group's financial position remained healthy and was sufficient to achieve its business objectives.

As at 31 December 2017, approximately 63.8% (31 December 2016: approximately 11.1%) of total borrowings were at fixed interest rates.

As at 31 December 2017, the borrowings 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 31 December 2017, certain assets of the Group with carrying value of approximately RMB156.3 million (31 December 2016: approximately RMB244.6 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 2017 was approximately 26.5% (as at 31 December 2016 was 53.0%). This ratio was calculated as total borrowings less bank balances and cash, and relevant pledged deposits 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.

During the Year, the Group has entered into certain RMB/USD foreign exchange forward contracts to hedge against the volatility in the RMB/USD exchange rate. The foreign exchange forward contracts have been fully settled as at the Year ended. The management will continue to monitor closely its foreign currency exposure and requirements and to arrange hedging facilities when necessary.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: the payment of a final dividend of HK1.9 cents per share).

CLOSURE OF REGISTER OF MEMBERS

The Company's register of members will be closed during the following periods:

To determine the identity of shareholders who are entitled to attend and vote at the 2018 AGM

Latest time for lodging transfers:	4:30 pm on Monday, 14 May 2018
Closure of register of members:	Tuesday, 15 May to Friday, 18 May 2018 (both dates inclusive)
Record date:	Friday, 18 May 2018
Date of 2018 AGM:	Friday, 18 May 2018

No transfer of shares will be registered during the above periods when the Company's register of members is closed.

In order to be eligible for attending and voting at the 2018 AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than the latest time for lodging transfers as stated above.

ANNUAL GENERAL MEETING

The 2018 AGM of the Company will be held on Friday, 18 May 2018. Notice of 2018 AGM will be published on the websites of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the Company and dispatched to the shareholders of the Company in due course.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2017, the Group had 435 (31 December 2016: 499) employees in the PRC and Hong Kong. Total staff costs amounted to approximately RMB115.9 million (2016: approximately RMB119.3 million).

The Group's employees are remunerated by reference to industry practices and performance and the 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 of the Group. Through our ongoing training programme, we encourage them to develop their talents and to move up the organisation. We believe these efforts are 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 31 December 2017, the Group had used approximately RMB10.7 million for setting up 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, approximately RMB10.2 million for general working capital purposes of the Group, and approximately RMB30.2 million for the investment in research and development of self-branded software and hardware enterprises IT products, which also covers the investment in the promoting and marketing of these products. All the remaining proceeds from the initial public offering have been utilised by the Group during the year ended 31 December 2017.

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 year ended 31 December 2017.

IMPORTANT EVENTS SUBSEQUENT TO THE FINANCIAL YEAR

The Directors are not aware of any important events affecting the Company that have occurred since the end of the financial year.

OUTLOOK

In 2017, with macroeconomic conditions generally improving, China's information technology (IT) enterprises continued to shift their strategic direction to Internet+, cloud computing, artificial intelligence (AI) and big data. During the year under review, certain customers whose business was affected by various factors remained prudent about large-scale infrastructure procurement. Consequently, high value sales orders were uncommon to the Group. Competition in homogenous products in the market also became more intense. Despite such difficult operating conditions, the Group was able to seize opportunities and achieve robust sales performance from its domestic and overseas brand products, cloud computing products and system integration services, allowing it to maintain sales revenue growth.

Driven by market transformation, the Group has consolidated its main businesses into three segments, with the first segment comprising own branded cloud products that the Group has continued to invest in. As cloud computing matures and becomes more and more popular worldwide, China's cloud computing market has also seen rocketing growth in recent years. These developments have prompted the Group to strategically focus on developing its own brand cloud products, solutions and cloud services. Despite the relatively small proportion of own branded cloud products found in the Group's existing overall businesses, the business segment remains an important element of its asset portfolio as it reflects the Group's capacity to innovate independently, which also demonstrates immense market potential and strong growth in the foreseeable future. The second business segment of the Group consists of intelligent digitalized applications and system integration service. The Group continues to grow the business and offer integrated IT solutions and services to customers. Driven by customers' pursuit of transformation through digitalization, the Group commenced development of digitalized intelligent applications. The move will allow the Group to facilitate employment of digital technologies to transform their business. Braced by emerging and advanced IT technologies, the Group is able to more comprehensively serve customers at the business end. The Group's third business segment covers distribution of traditional enterprise-grade information technology products, serving leading domestic and overseas IT enterprises including IBM, Oracle and Huawei, with whom the Group cooperates intensively. Such ties work in favor of the Group in exploring cooperative opportunities in the advanced technology sector and enable it to maintain its function and role as a technology pioneer while growing its businesses. Meanwhile, with the determination to improve the profit margin of distribution business, the Group will enhance its existing product portfolio by reducing or terminating the sales of products with low profit margin.

The development of new technologies such as cloud computing, artificial intelligence and big data has had an immense impact on people from all walks of life, and an even more profound influence on the IT distribution industry. With increasingly intense competition in the traditional IT distribution sector, the traditional business applications and system integration businesses have been hard hit. Pursuing digital transformation means customers have to integrate digital technologies into their business. To achieve that, they not only require the support of traditional IT provisions, but also professional advice and assistance with respect to products and solutions that can help them with development of new technologies. The Group is fully cognizant of such market developments. Going forward, the Group will continue to make adjustments in its business direction and resources, with the aim of providing products and services that address customers' needs and which align with the most recent trends. The Group will ensure that it can provide the necessary IT support to customers during this age of digital transformation and by so doing, further strengthen cooperative ties with its existing customers.

The Group believes that development of cloud computing products, digital smart applications and related services is not only important in addressing customers' demands, but also is a top priority for traveling on the road to business transformation. The Group has made crucial progress in the development of cloud computing products. At the same time, the Group has forged cooperative ties with domestic and overseas cloud resources suppliers such as Oracle, AWS and Huawei. Through these partnerships, the Group will be able to provide cloud infrastructure products for customers in China's cloud computing market. It will also partner with cloud service providers to deliver customers and independent software developers with business support and services according to various cloud computing scenarios. Furthermore, the Group will commence with a digital smart application business pinpointing the needs of specific industries in order to support customers' new application business during their digital transformation period.

The management of the Group knows well that the path towards business transformation is difficult, which takes time and relentless hard work. The Group will firmly push forward with achieving its own transformation goals aiming for steady progress and closely watch related costs so as to protect the overall interest of shareholders.

CORPORATE GOVERNANCE

During the year ended 31 December 2017, 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.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as standard for dealings in securities of the Company by the Directors. Having made specific enquiry of all Directors by the Company, during the year ended 31 December 2017, the Directors have confirmed in writing that they complied with the standards set out in the Model Code.

REVIEW OF ANNUAL RESULTS

The audit committee of the Company has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2017 including the accounting principles and practices adopted by the Group, and discussed the risk managements, internal control and financial reporting matters during the review.

SCOPE OF WORK PERFORMED BY AUDITOR

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2017 have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary 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 2017 annual report of the Company will be dispatched 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, 23 March 2018

As at the date of this announcement, the executive Directors are Mr. Chen Jian and Ms. Chen Jing; and the independent non-executive Directors are Mr. Chow Siu Lui, Mr. Yuan Bo and Mr. Lo Kwok Kwei David.