Futong
富通

Futong Technology Development Holdings Limited
富通科技發展控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 465)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019 together with comparative audited figures for the corresponding period in 2018, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	**2019** *RMB'000*	2018 *RMB'000*
Revenue	*5*	**848,773**	1,777,113
Cost of sales and services		**(731,149)**	(1,594,960)
Gross profit		**117,624**	182,153
Other income	*6*	**8,687**	10,550
Other gains, net	*6*	**813**	3,926
Impairment losses on financial assets, net		**(799)**	(18,839)
Selling expenses		**(76,035)**	(94,949)
Administrative expenses		**(40,914)**	(45,740)
Profit from operations		**9,376**	37,101
Finance costs	*7*	**(1,471)**	(13,014)
Loss on disposal of interests in associates		**—**	(822)
Share of profit of associates		**—**	720
Profit before income tax expense	*8*	**7,905**	23,985
Income tax expense	*9*	**(5,149)**	(4,574)
Profit and total comprehensive income for the year		**2,756**	19,411

	Notes	**2019**	2018
		RMB'000	*RMB'000*
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**2,865**	19,427
Non-controlling interests		**(109)**	(16)
		2,756	19,411
Earnings per share			
— Basic and diluted (RMB)	*11*	**0.01**	0.06

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2019

	Notes	**2019** **RMB'000**	2018 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*12*	**3,496**	24,588
Intangible assets		**11,651**	1,811
Right-of-use assets		**19,171**	—
Deferred tax assets		**29,197**	30,326
Total non-current assets		**63,515**	56,725
Current assets			
Inventories		**22,598**	63,731
Trade, bills and other receivables	*13*	**197,431**	338,038
Contract assets		**36,197**	19,939
Tax recoverable		—	946
Pledged deposits		**32,788**	23,349
Bank balances and cash		**374,969**	390,523
Total current assets		**663,983**	836,526
Current liabilities			
Trade and other payables	*14*	**89,021**	159,071
Contract liabilities		**79,116**	155,664
Bank borrowings		**10,600**	30,725
Lease liabilities		**993**	—
Tax payable		**2,315**	—
Total current liabilities		**182,045**	345,460
Net current assets		**481,938**	491,066
NET ASSETS		**545,453**	547,791
CAPITAL AND RESERVES			
Share capital		**27,415**	27,415
Reserves		**513,506**	515,735
Equity attributable to owners of the Company		**540,921**	543,150
Non-controlling interests		**4,532**	4,641
TOTAL EQUITY		**545,453**	547,791

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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, services and solutions, cloud computing products and intelligent digitalised application products. There were no significant changes in the business during the year.

As at 31 December 2019, 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/revised IFRSs — effective from 1 January 2019

Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRS 9	Prepayment Features with Negative Compensation
IFRS 16	Leases
IFRIC-Int 23	Uncertainty over Income Tax Treatments

The impact of the adoption of IFRS 16 "Leases" ("**IFRS 16**") have been summarised in below. The other new or amended IFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

(i) Impact of the adoption of IFRS 16

IFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces IAS 17 "Leases" ("**IAS 17**"), IFRIC-Int 4 "Determining whether an Arrangement contains a Lease" ("**IFRIC-Int 4**"), SIC-Int 15 "Operating Leases-Incentives" and SIC-Int 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". From a lessee's perspective, almost all leases are recognised in the consolidated statement of financial position as a right-of-use assets and a lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from IAS 17. For details of IFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under IFRS 16, please refer to section (ii) to (iv) of this note.

The Group has applied IFRS 16 using cumulative effect approach and recognised all the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained profit at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The following table summarised the impact of transition to IFRS 16 on the consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows (increase/(decrease)):

	RMB'000
Assets	
Right-of-use assets	20,240
Property, plant and equipment	(18,182)
Prepayment	(155)
Total assets	1,903
Liabilities	
Lease liabilities (non-current)	778
Lease liabilities (current)	1,125
Total liabilities	1,903

The following reconciliation explains how the operating lease commitments disclosed applying IAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

	RMB'000
Reconciliation of operating lease commitment to lease liabilities	
Operating lease commitment at 31 December 2018	4,726
Lease liabilities discounted at relevant incremental borrowing rate	4,302
Less: short-term leases for which leases terms end within 31 December 2019	(2,399)
Lease liabilities as at 1 January 2019	1,903

Weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 was 3.64%.

(ii) New definition of a lease

Under IFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

(iii) Accounting as a lessee

Under IAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the consolidated statement of financial position of the lessee.

Under IFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but IFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for leases which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

Right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

For right-of-use asset that meets the definition of an investment property, they are carried at fair value and for right-of-use asset that meets the definition of a leasehold land and buildings held for own use, they are carried at cost.

For the Group, leasehold land and buildings which is held for own use would continue to be accounted for under IAS 16 and would be carried at cost. Adoption of IFRS 16 therefore does not have any significant impact on these right-of-use assets. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises its judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

Lease liability

Lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

Following payments for the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Transition

As mentioned above, the Group has applied IFRS 16 using cumulative effect approach and recognised all the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained profit at the date of initial application (i.e. 1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying IAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases under IAS 17 equal to the related lease liabilities adjusted by prepaid lease payments. For all these right-of-use assets, the Group has applied IAS 36 "Impairment of Assets" at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (i.e. 1 January 2019) and accounted for those leases as short-term leases; and (iii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 January 2019.

In addition, the Group has also applied the practical expedients such that: (i) IFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 and (ii) not to apply IFRS 16 to contracts that were not previously identified as containing a lease under IAS 17 and IFRIC-Int4.

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

The following new/ revised IFRSs, potentially relevant to the Group's consolidated 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.

Amendments to IAS 1	Classification of Liabilities as Current or Non-Current[2]
Amendments to IAS 1 and IAS 8	Definition of Material[1]
Amendments to IFRS 3	Definition of a Business[1]
Amendments to IFRS 7, IFRS 9 and IAS 39	Interest Rate Benchmark Reform [1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2022
3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

The directors expect that the adoption of the above standards will have no material impact on the consolidated financial statements in the year of initial application.

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 SEHK (the "**Listing Rules**").

The consolidated financial statements have been prepared under historical cost except for bills receivables, which are stated at fair value, 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 infrastructure products, services and solutions, cloud computing products and intelligent digitalised application products 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 the chief operating decision maker for the purpose of resources allocation and assessment of performance are same as the amounts reported under IFRSs.

Revenue from customer of the year contributing over 10% of the Group's total revenue is as follows:

	2019	2018
	RMB'000	*RMB'000*
Customer A	**277,178**	370,598

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:

	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customer within the scope of IFRS 15		
Sales of enterprise IT products	**479,076**	1,281,443
Provision of services	**369,697**	495,670
	848,773	1,777,113

In following tables, revenue is disaggregated by primary geographical market and timing on revenue recognition.

	2019	2018
	RMB'000	*RMB'000*
Primary geographical markets:		
Hong Kong	**8,150**	—
PRC	**840,623**	1,777,113
	848,773	1,777,113
Timing of revenue recognition:		
At a point in time	**479,076**	1,281,443
Transferred over time	**369,697**	495,670
	848,773	1,777,113

The following table provides information about trade and bills receivables, contract assets and contract liabilities from contracts with customers.

	2019	2018
	RMB'000	*RMB'000*
Receivables	**129,423**	279,681
Contract assets	**36,197**	19,939
Contract liabilities	**79,116**	155,644

Contract assets primarily relate to the Group's rights to consideration for work completed but not certified the receipt by customers at the reporting date on revenue related to the sales of enterprise IT products and provision of services. Contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the delivery is certified and the Group provides the invoice to the customer.

Contract liabilities mainly relate to the advance consideration received from customers. Balance of RMB145,172,000 as of 1 January 2019 has been recognised as revenue during the year from performance obligations satisfied due to the completion of services.

The Group has applied the practical expedient to its sales contracts for enterprise IT products and provision of services and therefore the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for enterprise IT products and provision of services that had an original expected duration of one year or less.

6. OTHER INCOME AND OTHER GAINS, NET

	2019	2018
	RMB'000	*RMB'000*
Other income:		
Interest income	**6,010**	4,652
Government grants *(note)*	**1,126**	4,699
Others	**1,551**	1,199
	8,687	10,550
Other gains, net:		
Loss on disposals of property, plant and equipment	**(22)**	(408)
Foreign exchange gains	**1,076**	6,719
Write-off of prepayments to suppliers	**—**	(1,763)
Others	**(241)**	(622)
	813	3,926

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

	2019	2018
	RMB'000	*RMB'000*
Interest on bank borrowings	**1,320**	13,014
Interest on lease liabilities	**151**	—
	1,471	13,014

For the years ended 31 December 2019 and 2018, interest on bank borrowings are wholly repayable within one year.

8. PROFIT BEFORE INCOME TAX EXPENSE

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

	2019	2018
	RMB'000	*RMB'000*
Auditor's remuneration:		
— Audit service	**1,400**	1,400
— Non-audit service	**195**	214
Amortisation of intangible assets (*note (i)*)	**1,526**	941
Cost of services	**306,006**	402,606
Cost of inventories recognised as an expense, net of write back of inventories	**425,143**	1,176,991
Research and development costs	**592**	6,936
Depreciation of property, plant and equipment	**3,442**	4,821
Depreciation of right-of-use assets (*note (ii)*)	**1,912**	—
Minimum lease payments paid under operating lease in respect of rented premises under IAS17	**—**	10,196
Interest on lease liabilities	**151**	—
Short-term lease expenses	**2,475**	—
Staff costs (including directors' emoluments) (*note (iii)*):		
— Salaries and wages	**87,058**	86,710
— Contributions to retirement benefit scheme	**8,158**	8,580
— Equity-settled share-based payment	**905**	54
	96,121	95,344
Less: capitalised as intangible assets	**(8,367)**	—
	87,754	95,344

Notes:

(i) Amortisation charges of RMB199,000 (2018: nil) and RMB1,327,000 (2018: RMB941,000) have included in cost of sales and services and administrative expenses respectively for the year.

(ii) The Group has initially applied IFRS 16 using cumulative effect approach and adjusted the opening balance at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on straight-line basis over the lease term. Under this approach, the comparative information has not been restated. Details of this approach are set out in note 2.1(iv).

(iii) 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 8% to 20% (2018: 8% to 22%) 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% (2018: 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 RMB8,158,000 (2018: RMB8,580,000) represents contributions payable to these schemes by the Group in respect of the year ended 31 December 2019. As at 31 December 2019 and 2018, 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:

	2019	2018
	RMB'000	*RMB'000*
Current tax — Hong Kong profits tax		
Over provision in respect of prior years	—	(11)
Current tax — PRC income tax		
Tax for the year	**2,891**	3,986
Dividend tax	**1,053**	—
	3,944	3,986
Deferred tax		
Charged for the year	**1,205**	158
Effect of change in tax rate *(note (ii))*	—	441
	5,149	4,574

Note:

(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) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporations is taxed at 8.25%, and profits above HK$2 million is taxed at 16.5%. The profits of group entities in Hong Kong that are not qualifying for the two-tiered profits tax rates regime continue to be taxed at a flat rate of 16.5%.

Accordingly, from 2018, the Hong Kong profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

(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, except for two subsidiaries have been granted continuously on a three-year interval with a qualification of high-tech enterprise which entitles these two subsidiaries a preferential income tax rate of 15%, the tax rate of the Company's subsidiaries in the PRC is 25% in 2019 and 2018.

10. DIVIDENDS

	2019	2018
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
2018 final dividend: HK2.2 cents, equivalent to RMB1.9 cents per share	**5,999**	—

For the year ended 31 December 2019, the directors do not recommend the payment of a final dividend.

For the year ended 31 December 2018, a final dividend of HK2.2 cents (approximately equivalent to RMB1.9 cents per share), totaling approximately HK$6,848,000 (approximately RMB5,999,000) based on the total number of issued ordinary shares as at the date of issuance of these consolidated financial statements, had been proposed and approved by the shareholders at the annual general meeting.

11. EARNINGS PER SHARE

Calculation of the basic and diluted earnings per share is based on the following data:

	2019	2018
	RMB'000	*RMB'000*
Earnings for the purpose of basic and diluted earnings per share	**2,865**	19,427
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**311,250**	311,250

For the years ended 31 December 2019 and 2018, the computation of diluted earnings 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 2019, the Group spent approximately RMB551,000 (2018: RMB1,934,000) to acquire leasehold improvements and furniture, fixtures and equipment.

13. TRADE, BILLS AND OTHER RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**216,937**	305,382
Less: allowance for doubtful debts	**(88,014)**	(48,322)
	128,923	257,060
Bills receivables *(note)*	**500**	22,621
Total trade and bills receivables	**129,423**	279,681
Prepayments	**43,960**	25,072
Deposits	**4,562**	6,644
VAT receivables	**17,892**	24,582
Other receivables	**1,594**	2,059
	197,431	338,038

Note:

For the year ended 31 December 2018, the Group discounted part of its bills receivables with full recourse to financial institutions. In the event of default by the debtors, the Group was obliged to pay the financial institutions the amount in default. Interest was charged at 3.29% - 6.3% on the proceeds received from the financial institutions until the date the debtors pay. The Group was therefore exposed to the risks of credit losses and late payment in respect of the discounted debts.

The Group manages its bills receivables using the business model whose objective is achieved by both collecting contractual cash flows and selling such financial assets and hence, they are classified as financial asset at fair value through other comprehensive income.

The discounting transactions did not meet the requirements in IFRS 9 "Financial Instruments" for de-recognition of financial assets as the Group had not transferred the significant risks and rewards of the discounted bills receivables. At 31 December 2018, bills receivables of RMB9,725,000 continued to be recognised in the Group's consolidated financial statements even though they had been legally transferred to the financial institutions. The proceeds of the discounting transactions were included in bank borrowings until the trade debts were collected or the Group settled any losses suffered by the financial institutions.

Because the trade debts have been transferred to the financial institutions legally, the Group did not have the authority to determine the disposition of the trade debts.

The Group allows an average credit period of 30-90 days (2018: 30-90 days) to its trade customers. For certain major customers such as the state owned enterprises, the credit term which will be negotiated by 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.

	2019 ***RMB'000***	2018 *RMB'000*
0-30 days	**18,584**	55,461
31-60 days	**8,326**	20,475
61-90 days	**15**	50,922
More than 90 days	**102,498**	152,823
Total	**129,423**	279,681

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

	2019 ***RMB'000***	2018 *RMB'000*
Less than 1 month past due	**2,651**	12,325
1 to 3 months past due	**2,051**	32,973
More than 3 months past due	**93,344**	21,968
Total	**98,046**	67,266

Trade and bills receivables of RMB98,046,000 (2018: RMB67,266,000) were past due but not impaired as at 31 December 2019. These related to a large number of diversified customers for whom there was no recent history of default. The Group does not hold any collaterals or other credit enhancements over these balances.

The below table reconciles the allowance for doubtful debts for the year:

	2019	2018
	RMB'000	*RMB'000*
At beginning of year	**48,322**	41,546
Transferred from contracted assets	**43,216**	—
Impairment losses recognised	**4,937**	39,450
Reversal of impairment loss	**(4,178)**	(32,924)
Uncollectible amount written off	**(4,461)**	—
Exchange alignment	**178**	250
At end of year	**88,014**	48,322

14. TRADE AND OTHER PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**76,599**	138,969
Other payables and accruals	**12,422**	20,102
	89,021	159,071

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:

	2019	2018
	RMB'000	*RMB'000*
Current or less than 1 month	**55,930**	67,964
1 to 3 months	**6,270**	33,540
More than 3 months	**14,399**	37,465
	76,599	138,969

Average credit period on purchases of goods was 30-90 days (2018: 30 - 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the acceptable timeframe.

15. EVENTS AFTER THE REPORTING PERIOD

(i) The Group received notices from IBM for termination of the various business partner agreements entered into between IBM and certain members of the Group effective from around late May to early June 2020. Following such termination, the Group will no longer be eligible to engage in business activities of IBM products and services in the capacity of an IBM business partner. Nonetheless, such termination shall not affect any orders or contracts which have been entered into with IBM prior to the effective date of the termination.

(ii) Since January 2020, the outbreak of Novel Coronavirus ("**COVID-19**") has economic impact on the global business environment. As at the date of this announcement, COVID-19 has not caused material impact on the financial results of the Group. Depending on the subsequent development of COVID-19, any change in macro-economic conditions may have impact on the financial results of the Group, the extent of which could not be assessed as at the date of this announcement. The Group will keep continuous attention on the situation of the COVID-19 and react actively to its impact on the financial position and operating results of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

As a leading enterprise digital transformation services provider in China, the Group specialises mainly in providing enterprise IT infrastructure products, services and solutions, cloud computing products and intelligent digitalised application products. With efforts by enterprise clients in China intensifying to transform their operations through digitalisation, the Group has consolidated its main businesses into three business divisions, namely, systems integration services, development and sales of own-brand cloud computing management products, and development and sale of intelligent digitalised products.

Systems integration services

The Group's systems integration services business has been gathering growth momentum in recent years. This segment mainly provides customer-specific systems structure business solutions, repair and maintenance support to customers' informationalised value-added services. With leading domestic and foreign-established IT companies as close collaborative partners, the Group has sought to explore cooperation and business opportunities in the advanced technology sectors. Its objective is to maintain its function and role as a technology pioneer in the industry while growing its businesses. For the year ended 31 December 2019 (the "**Year**"), the systems integration services division faced increasingly intensified competition, though it continued to be one of the Group's key income sources. The Group will further optimise its existing product portfolio to increase services income and gross profit so as to assure good cash flow and enhance profitability.

Development and sale of own-brand cloud computing management products

After investment of resources and research and development ("**R&D**") for several years, cloud computing management products have become one of the Group's key businesses. To enhance reliability, functionality and market recognition of its products, the Group has continued to improve associated technologies and stepped up marketing efforts to its own-brand cloud computing products. At the same time, it has commenced cooperation with the top providers of cloud resources in China and overseas such as AWS, Tencent Cloud and Alibaba Cloud, and has actively offered its leading enterprise customers in China with highly efficient applications and solutions based on the Group's cloud products and cloud management services. During the Year, the Group successfully won bids for several major projects and signed cooperation agreements with different top providers of cloud resources, thereby laying a good foundation for future income.

Development and sale of intelligent digitalised products

Driven by new technologies such as artificial intelligence and big data, the Group has continued to develop intelligent digitalised application products for specific industries including the medical and transportation sectors. The use of new and advanced information technologies and tools has enabled the Group to more precisely serve customers in specific industries. During the Year, the Group actively accumulated industry reserves to lay a strong foundation for future business development while offering services to different customers. The Group also allocated resources in intelligent digitalised products, formed AI laboratories managed by professioanls holding doctoral and master's degrees from renowned universities in the PRC, cooperated with renowned and respected education institutions under Project 985 in the PRC and enlisted experts and business organisations in the industry to form strategic partnerships. These efforts have allowed the Group to meet high professional business standards and optimise AI algorithm models and compiling knowledge graphs, hoping to combine them and expedite the research and development of associated products.

FINANCIAL REVIEW

Revenue

For the Year, revenue of the Group decreased by approximately RMB928.3 million or 52.2% as compared with that in 2018, to approximately RMB848.8 million (2018: approximately RMB1,777.1 million). The decrease was mainly due to the challenging macro-economic environment and China's slower economic growth which led to some of the Group's customers having remained cautious with their spending.

Gross profit

Gross profit of the Group decreased by approximately RMB64.5 million or 35.4% to approximately RMB117.6 million for the Year (2018: approximately RMB182.1 million) while the gross profit ratio increased from 10.2% to 13.9%. The increase in gross profit ratio was mainly contributed by Group's effort to reduce the sales of products with low profit margin and the increase in sales of the Group's own branded products and services.

Other income and other gains, net

Other income and other gains, net comprises of mainly interest income from bank deposits, foreign exchange gain or loss and government grants. For the Year, net gains from other income and other gains, net amounted to approximately RMB9.5 million (2018: approximately RMB14.5 million), representing a decrease of approximately RMB5.0 million. This decrease was mainly due to combined effect of (i) a decrease in net foreign exchange gain of approximately RMB5.6 million; (ii) a decrease in government grant of approximately RMB3.6 million; and (iii) an increase in interest income of approximately RMB1.4 million.

Impairment losses on financial assets, net

The impairment losses on financial assets, net significantly decreased by approximately RMB18.0 million or 95.8% to approximately RMB0.8 million for the Year (2018: approximately RMB18.8 million). The decrease was mainly due to the strengthened control over the trade receivables and contract assets by the Group during the Year.

Selling expenses

For the Year, selling expenses of the Group amounted to approximately RMB76.0 million (2018: approximately RMB94.9 million), representing a decrease of approximately RMB18.9 million or 19.9% compared with the corresponding period in 2018. The decrease was mainly due to the reduction in the number of salesmen following adjustments to the business structure; causing the staff costs and other related expenses to fall accordingly.

Administrative expenses

Administrative expenses of the Group for the Year amounted to approximately RMB40.9 million (2018: approximately RMB45.7 million), representing a decrease of approximately RMB4.8 million or 10.6% compared with the corresponding period in 2018. The decrease was mainly due to the Group's implementation of tight cost control measures during the Year and the decline in one off compensation cost incurred from laying off staff resulting from an adjustment to its business structure during the corresponding period in 2018.

Finance costs

Finance costs of the Group decreased by approximately RMB11.5 million or 88.7%, from approximately RMB13.0 million for the year ended 31 December 2018 to approximately RMB1.5 million for the Year. The decrease was mainly due to the significant reduction in borrowings as the Group maintained sufficient working capital and good cash flow during the Year.

Income tax expense

Income tax expense of the Group for the Year amounted to approximately RMB5.1 million (2018: approximately RMB4.6 million), representing an increase of approximately RMB0.5 million, or 12.6%, compared with the corresponding period in 2018. The increase was mainly due to the PRC withholding tax on the dividends declared in respect of profits earned by a PRC subsidiary during the Year and a decline in deferred tax assets in respect of the decrease in impairment loss on trade receivables.

Profit and total comprehensive income for the year attributable to owners of the Company

For the Year, the profit and total comprehensive income attributable to owners of the Company was approximately RMB2.9 million (2018: approximately RMB19.4 million), representing a decrease of approximately RMB16.5 million as compared with the corresponding period in 2018. Even though the Group successfully increased the gross profit margin ratio by increasing the sales of its own branded products and services and by continuing to implement stringent cost controls over its operating expenses, the challenging macro-economic environment and China's slower economic growth caused the decrease in revenue and hence the profit for the year attributable to owners of the Company.

Liquidity and Financial Resources

The Group generally finances its daily operations from internally generated cash flows and banking facilities. As at 31 December 2019, the Group had total assets of approximately RMB727.5 million and net assets of approximately RMB545.5 million (2018: approximately RMB893.3 million and approximately RMB547.8 million, respectively). In respect of the trade receivables and contract assets of the Group which amounted to approximately RMB165.1 million (2018: approximately RMB277.0 million), net of allowance for doubtful debts of approximately RMB88.1 million (2018: approximately RMB91.5 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 RMB375.0 million as at 31 December 2019 (2018: approximately RMB390.5 million). Bank borrowings amounted to approximately RMB10.6 million (2018: approximately RMB30.7 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 2019, approximately 99.1% (31 December 2018: all) of bank borrowings were at fixed interest rates.

As at 31 December 2019, the borrowings of the Group were advanced in RMB while cash and cash equivalents were held at RMB, USD and Hong Kong dollars.

Pledge of Assets

As at 31 December 2019, certain assets of the Group with carrying value of approximately RMB50.9 million (2018: approximately RMB23.3 million) were pledged to banks for banking facilities and bank guarantees granted to the Group.

Net Debt-To-Capital Ratio

The Group's net debt-to-capital ratio as at 31 December 2019 and 31 December 2018 was zero. 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

Having considered the possible impact on the financial results of the Group as a result of the outbreak of COVID-19, and in order to retain sufficient capital for the Group's business operation, the Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: a final dividend of HK2.2 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 2020 AGM

Latest time for lodging transfers:	4:30 p.m. on Friday, 15 May 2020
Closure of register of members:	Monday, 18 May 2020 to Friday, 22 May 2020 (both dates inclusive)
Record date:	Friday, 22 May 2020
Date of 2020 AGM:	Friday, 22 May 2020

In order to be eligible for attending and voting at the 2020 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 54, 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 2020 AGM of the Company will be held on Friday, 22 May 2020. Notice of 2020 AGM will be published on the websites of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the Company and despatched to the shareholders of the Company in due course.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, the Group had 337 (2018: 290) employees in the PRC and Hong Kong. Total staff costs amounted to approximately RMB96.1 million (2018: approximately RMB95.3 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, and 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.

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 2019.

IMPORTANT EVENTS SUBSEQUENT TO THE FINANCIAL YEAR

(i) The Group received notices from IBM for termination of the various business partner agreements entered into between IBM and certain members of the Group effective from around late May to early June 2020. Following such termination, the Group will no longer be eligible to engage in business activities of IBM products and services in the capacity of an IBM business partner. Nonetheless, such termination shall not affect any orders or contracts which have been entered into with IBM prior to the effective date of the termination.

(ii) Since January 2020, the outbreak of Novel Coronavirus ("**COVID-19**") has economic impact on the global business environment. As at the date of this announcement, COVID-19 has not caused material impact on the financial results of the Group. Depending on the subsequent development of COVID-19, any change in macro-economic conditions may have impact on the financial results of the Group, the extent of which could not be assessed as at the date of this announcement. The Group will keep continuous attention on the situation of the COVID-19 and react actively to its impact on the financial position and operating results of the Group.

OUTLOOK

In 2019, the world experienced an economic downturn. The information technology market in China faced increasingly intensified competition. General economic environment was full of challenges and uncertainties. Despite such unfavourable market conditions, the Group still adhered to its business development approach and consolidated its internal resources to lower operating costs. Meanwhile, it further boosted gross profit margin and increased the sales contribution of its own services packages and self-developed products. As a result, overall gross profit margin rose to 13.9% from 10.2% last year, thereby maintaining its profitability during the difficult year.

Looking ahead to 2020, in view of the rapid development of emerging technologies such as internet+, cloud computing and artificial intelligence, the Group will continue to adjust its strategies to enhance its own competitiveness and constantly execute its strategic goals. While ensuring the stable development of its system integration services business for enterprise customers, the Group will also steadily move in two directions, namely cloud computing multi-cloud management services and medical intelligence. It will continuously invest in the building of platforms for technical capabilities and intellectual property rights as to develop a series of intelligent technology-driven products.

With increasing efforts by enterprise clients in China to transform their operations through digitalisation, the Group will increase investment in new technology applications and services for digitalisation in order to improve the reliability and functionality of its self-development software. Furthermore, in response, the Group will focus on strengthening its proprietary products, intelligent applications and operations, maintenance and services capabilities of its products to match the requirements of this new IT environment. Furthermore, by capitalising on the professional advantages of its subsidiaries in their corresponding professional areas, and with Futong Cloud Technology Co., Ltd. as the core platform, the Group will enhance and optimise its cloud computing products, multi-cloud management solutions and operational and maintenance functions of cloud intelligent technologies. Together with Beijing Futong Dongfang Technology Co., Ltd. at the helm, the Group will focus on intelligent applications for digitalisation, system integration and professional maintenance of system operation, with the aim of providing highly efficient A.I. applications and knowledge graphs for enterprise customers that are undergoing digital transformation in their respective industry as well as use in their applications, services and solutions in their professional areas.

In addition, the Group will continue to apply resources management solutions to ensure that resources are used effectively and maintain high operational efficiency. At the same time, the Group will continue to prudently monitor and implement stringent cost control measures and focus the risk management of all business cycles to improve cash flow, thereby maintaining a sound and healthy financial position.

While R&D requires considerable investment in both time and resources, the Group believes that embracing the core product technologies is the only way to gain competitive advantages in today's complex and fast-changing market environment. Consequently, aside from stepping up R&D efforts, refining technologies that have been amassed and strengthening cost controls, the Group will also apply its technological advantages and innovation capability to enhance its leading capabilities in technology and service. Moreover, the Group will also keep abreast of the market development trends and flexibly adjust its product portfolio. It will strive to take advantage of the new market trends and seize new opportunities arising from digital transformation of different industries.

CORPORATE GOVERNANCE

During the year ended 31 December 2019, 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 2019, 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 2019 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 2019 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 2019 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, 25 March 2020

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