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Futong Technology Development Holdings Limited

富通科技發展控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 465)

UNAUDITED INTERIM RESULTS ANNOUNCEMENT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

The board (the “**Board**”) of directors (the “**Directors**”) of Futong Technology Development Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six-month period ended 30 June 2020 (the “**Period**”) together with comparative figures. The condensed consolidated interim financial information has not been audited but has been reviewed by the Company’s auditor and audit committee.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

	<i>NOTE</i>	Six-month period ended 30 June	
		2020	2019
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	6	394,307	548,684
Cost of sales and services		(349,925)	(480,421)
		<hr/>	<hr/>
Gross profit		44,382	68,263
Other income	7	3,675	3,698
Other gains, net	7	4,724	355
Selling expenses		(31,529)	(39,223)
Administrative expenses		(13,085)	(17,349)
		<hr/>	<hr/>
Profit from operations		8,167	15,744
Finance costs	8	(66)	(1,179)
		<hr/>	<hr/>
Profit before income tax expense	9	8,101	14,565
Income tax expense	10	(4,941)	(5,630)
		<hr/>	<hr/>
Profit and total comprehensive income for the period		3,160	8,935
		<hr/> <hr/>	<hr/> <hr/>
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		3,166	8,992
Non-controlling interests		(6)	(57)
		<hr/>	<hr/>
		3,160	8,935
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share			
Basic and diluted (RMB)	12	0.01	0.03
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2020

		30 June 2020	31 December 2019
	<i>NOTE</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	3,062	3,496
Intangible assets	14	19,521	11,651
Right-of-use assets		22,065	19,171
Deferred tax assets		26,867	29,197
Total non-current assets		71,515	63,515
Current assets			
Inventories		13,148	22,598
Trade, bills and other receivables	15	157,666	197,431
Contract assets		102,599	36,197
Pledged deposits		20,284	32,788
Bank balances and cash		385,044	374,969
Total current assets		678,741	663,983
Current liabilities			
Trade and other payables	16	160,837	89,021
Contract liabilities		31,766	79,116
Bank borrowings		100	10,600
Lease liabilities		1,775	993
Tax payable		4,791	2,315
Total current liabilities		199,269	182,045
Net current assets		479,472	481,938
Total assets less current liabilities		550,987	545,453
Non-current liabilities			
Lease liabilities		2,116	–
NET ASSETS		548,871	545,453
CAPITAL AND RESERVES			
Share capital		27,415	27,415
Reserves		516,930	513,506
Equity attributable to owners of the Company		544,345	540,921
Non-controlling interests		4,526	4,532
Total equity		548,871	545,453

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

	Attributable to owners of the Company								Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Share options reserve RMB'000	Statutory reserves RMB'000	Retained profit RMB'000	Total RMB'000	Non- controlling interests RMB'000	
	Balance at 1 January 2019 (audited)	27,415	81,538	219	1,200	75,246	357,532	543,150	
Profit and total comprehensive income for the period	-	-	-	-	-	8,992	8,992	(57)	8,935
Recognition of equity-settled share-based payments	-	-	-	593	-	-	593	-	593
Lapse of share-based payments	-	-	-	(368)	-	368	-	-	-
Dividends (note 11)	-	-	-	-	-	(5,999)	(5,999)	-	(5,999)
Balance at 30 June 2019 (unaudited)	27,415	81,538	219	1,425	75,246	360,893	546,736	4,584	551,320
Balance at 1 January 2020 (audited)	27,415	81,538	219	1,572	77,826	352,351	540,921	4,532	545,453
Profit and total comprehensive income for the period	-	-	-	-	-	3,166	3,166	(6)	3,160
Recognition of equity-settled share-based payments	-	-	-	258	-	-	258	-	258
Lapse of share-based payments	-	-	-	(155)	-	155	-	-	-
Balance at 30 June 2020 (unaudited)	27,415	81,538	219	1,675	77,826	355,672	544,345	4,526	548,871

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

	Six-month period ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash generated from/(used in) operating activities	<u>15,710</u>	<u>(84,057)</u>
Net cash generated from/(used in) investing activities		
Bank interest received	3,253	2,664
Purchase of property, plant and equipment	(916)	(68)
Development cost paid	(8,877)	–
Placement of pledged bank deposits	(2,727)	(4,681)
Withdrawal of pledged bank deposits	<u>15,231</u>	<u>–</u>
	<u>5,964</u>	<u>(2,085)</u>
Net cash used in financing activities		
Proceeds from borrowings	–	500
Repayment of borrowings	(10,500)	(20,725)
Interest paid on bank borrowings	(9)	(1,080)
Interest paid on lease liabilities	(57)	(99)
Payments on principle portion of lease liabilities	(1,254)	(758)
Dividend paid	<u>–</u>	<u>(5,999)</u>
	<u>(11,820)</u>	<u>(28,161)</u>
Net increase/(decrease) in cash and cash equivalents	9,854	(114,303)
Cash and cash equivalents at 1 January	374,969	390,523
Effect of foreign exchange rate changes	<u>221</u>	<u>278</u>
Cash and cash equivalents at 30 June	<u><u>385,044</u></u>	<u><u>276,498</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

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

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are mainly engaged in provision of enterprise IT infrastructure products, services and solutions, cloud computing products and intelligent digitalised application products.

2. BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“**IAS 34**”) and the applicable disclosure provisions of Main Board Listing Rules Governing the Listing of Securities on the SEHK. These condensed consolidated interim financial statements were authorised for issue on 21 August 2020.

These condensed consolidated interim financial statements have been prepared with the same accounting policies adopted in the 2019 annual financial statements, except for those that relate to new standards or interpretations effective for the first time for periods beginning on or after 1 January 2020. Details of any changes in International Financial Reporting Standards (the “**IFRSs**”) are set out in note 3.

The preparation of these condensed consolidated interim financial statements in compliance with IAS 34 requires the use of certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in note 4.

These condensed consolidated interim financial statements are presented in Renminbi (“**RMB**”), unless otherwise stated. These condensed consolidated interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. These condensed consolidated interim financial statements and notes do not include all of the information required for a complete set of financial statements prepared in accordance with the IFRSs and should be read in conjunction with the 2019 consolidated financial statements.

2. **BASIS OF PREPARATION** *(Continued)*

These condensed consolidated interim financial statements are unaudited, but has been reviewed by BDO Limited in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” (“**ISRE 2410**”), issued by the International Accounting Standards Board (“**IASB**”).

3. **CHANGES IN IFRSs**

The IASB has issued a number of new or amended IFRSs that are first effective for the current accounting period of the Group:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 7, IFRS 9 and IAS 39	Interest Rate Benchmark Reform

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

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing this condensed consolidated interim financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2019 annual financial statements.

5. SEGMENT INFORMATION

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

The chief operating decision maker considers that the operation of the Group constitutes a single operating segment as the revenue and profit are derived entirely from the provisions of enterprise IT products and services to customers in the People's Republic of China (the "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.

6. REVENUE

All the Group's revenue is derived from contracts with customers.

Revenue is disaggregated by primary geographical markets, major products and service lines and timing of revenue recognition as following tables.

	Six-month period ended 30 June	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Primary geographical markets		
The PRC	391,657	540,534
Hong Kong	2,650	8,150
	<u>394,307</u>	<u>548,684</u>
Major products/services lines		
Enterprise IT products	232,820	339,361
Provision of services	161,487	209,323
	<u>394,307</u>	<u>548,684</u>
Timing of revenue recognition		
At a point in time	232,820	339,361
Transferred over time	161,487	209,323
	<u>394,307</u>	<u>548,684</u>

6. REVENUE (Continued)

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

	30 June 2020 <i>RMB'000</i> (Unaudited)	31 December 2019 <i>RMB'000</i> (Audited)
Receivables (<i>note 15</i>)	75,164	129,423
Contract assets	102,599	36,197
Contract liabilities	<u>31,766</u>	<u>79,116</u>

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 RMB56,292,000 as of 1 January 2020 has been recognised as revenue for the six-month period ended 30 June 2020 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.

7. OTHER INCOME AND OTHER GAINS, NET

	Six-month period ended 30 June	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Other income:		
Interest income	3,253	2,664
Government grants (<i>note</i>)	420	913
Others	<u>2</u>	<u>121</u>
	<u>3,675</u>	<u>3,698</u>

	Six-month period ended 30 June	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Other gains, net:		
Reversal of impairment loss		
on trade receivables and contract assets, net	3,650	371
Net foreign exchange gains/(losses)	<u>1,074</u>	<u>(16)</u>
	<u>4,724</u>	<u>355</u>

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 operation.

8. FINANCE COSTS

	Six-month period ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest on bank borrowings	9	1,080
Interest on lease liabilities	57	99
	<u>66</u>	<u>1,179</u>

For the six-month period ended 30 June 2020, interest on bank borrowings is wholly derived from loans which are repayable within one year (six-month period ended 30 June 2019: two years).

9. PROFIT BEFORE INCOME TAX EXPENSE

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

	Six-month period ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Staff costs:		
Salaries and allowances	42,862	39,497
Contributions to retirement benefit schemes	476	3,921
Equity-settled share-based payment	258	593
	<u>43,596</u>	<u>44,011</u>
Less: capitalised as intangible assets	(8,395)	–
	<u>35,201</u>	<u>44,011</u>
Other items:		
Carrying amount of inventories sold	217,352	316,069
Write-down and write-off of inventories, included in cost of sales	169	445
	<u>217,521</u>	<u>316,514</u>
Amortisation of intangible assets (<i>note</i>)	1,006	181
Depreciation of right-of-use assets	1,626	674
Depreciation of property, plant and equipment	1,350	2,061
Short-term lease expenses	958	1,884

Note: Amortisation charges of RMB695,000 (six-month period ended 30 June 2019: RMB76,000) and RMB311,000 (six-month period ended 30 June 2019: RMB105,000) have included in cost of sales and services and administrative expenses respectively.

10. INCOME TAX EXPENSE

	Six-month period ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
PRC Enterprise Income Tax	2,538	2,520
PRC Dividend Tax	—	1,056
	<u>2,538</u>	<u>3,576</u>
Deferred tax:		
Charged for the period	2,403	2,054
	<u>4,941</u>	<u>5,630</u>

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) Under the two-tiered profits tax rates regime in Hong Kong, 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, 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 those 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, except for two subsidiaries have been granted continuously on a three years interval with a qualification of high-tech enterprise which entitles these subsidiaries a preferential income tax rate of 15%, the tax rate of the Company’s subsidiaries is 25% in the PRC from 1 January 2008 onwards. The Group has not recognised deferred tax of approximately RMB1,617,000 (six-month period ended 30 June 2019: RMB1,467,000) in respect of losses incurred by certain PRC subsidiaries for the period.

10. INCOME TAX EXPENSE *(Continued)*

- (iv) According to the EIT Law, withholding income tax at a rate of 10% would be imposed on dividends relating to profits earned from year 2008 onwards to foreign investors for the companies established in the PRC. Such dividend tax rate may be further reduced by applicable tax treaties or arrangement. According to the arrangement between the PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, the withholding tax rate on dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is reduced to 5% if the Hong Kong resident enterprise holds at least 25% equity interests in the PRC resident enterprise.

As at 30 June 2020, the Group has not recognised deferred tax liabilities of RMB15,763,000 (six-month period ended 30 June 2019: RMB14,873,000) in respect of temporary differences relating to the unremitted profits of subsidiaries amounted to RMB314,803,000 (six-month period ended 30 June 2019: RMB297,468,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

11. DIVIDENDS

During the current interim period, no final dividend in respect of the year ended 31 December 2019 was declared and paid to the owners of the Company.

During the six-month period ended 30 June 2019, a final dividend of HK2.2 cents (approximately equivalent to RMB1.9 cents) per share in respect of the year ended 31 December 2018 was declared and paid to the owners of the Company and the aggregate amount of the final dividend declared and paid amounted to approximately HK\$6,848,000 (approximately equivalent to RMB5,999,000).

The directors have determined that no dividend will be paid in respect of the current interim period (six-month period ended 30 June 2019: nil).

12. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the six-month period ended 30 June 2020 is based on the profit for the period attributable to owners of the Company of RMB3,166,000 (six-month period ended 30 June 2019: RMB8,992,000) and the weighted average of 311,250,000 ordinary shares (six-month period ended 30 June 2019: 311,250,000 shares) in issue during the interim period.

The computation of diluted earnings per share does not assume the exercise of the Company's share options because the exercise prices of those share options were higher than the average market price of the Company's shares for the six-month period ended 30 June 2020.

13. PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2020, the Group spent RMB916,000 (six-month period ended 30 June 2019: RMB68,000) to acquire furniture, fixtures and equipment.

14. INTANGIBLE ASSETS

During the six-month period ended 30 June 2020, the Group spent RMB8,877,000 (six-month period ended 30 June 2019: nil) to research and develop its cloud computing management systems and intelligent digitalised application systems.

15. TRADE, BILLS AND OTHER RECEIVABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade receivables	153,797	216,937
Less: impairment losses	<u>(78,633)</u>	<u>(88,014)</u>
	75,164	128,923
Bills receivables	<u>–</u>	<u>500</u>
	75,164	129,423
Total trade and bills receivables	75,164	129,423
Prepayments	61,336	43,960
Deposits	4,344	4,562
VAT receivables	14,755	17,892
Other receivables	<u>2,067</u>	<u>1,594</u>
	<u>157,666</u>	<u>197,431</u>

The Group allows an average credit period of 30 to 90 days (31 December 2019: 30 to 90 days) to its trade customers.

Included in trade and bills receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on invoice dates, as of the end of reporting period.

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
0 – 30 days	28,284	18,584
31 – 60 days	3,252	8,326
61 – 90 days	7,142	15
More than 90 days	<u>36,486</u>	<u>102,498</u>
	<u>75,164</u>	<u>129,423</u>

16. TRADE AND OTHER PAYABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade payables	143,673	76,599
Other payables and accruals	17,164	12,422
	<u>160,837</u>	<u>89,021</u>

Average credit period on purchases of goods was 30 to 90 days (31 December 2019: 30-90 days). The following is ageing analysis of trade payables based on the invoice date at the end of the reporting periods:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Less than 1 month	134,467	55,930
1 to 3 months	114	6,270
More than 3 months	9,092	14,399
	<u>143,673</u>	<u>76,599</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the first half of 2020, Mainland China and many other countries implemented lockdowns and social distancing measures for protecting the society in response to the outbreak of COVID-19 pandemic, leading to a plenitude of challenges and uncertainties in the overall economic environment. Adhering to its approach of business development despite the severe market conditions, the Group strengthened online training for its employees and enhanced research and development (“R&D”) of its own brand products to further develop its business during the pandemic period. As a result of its effort in adjusting the business structure and integrating internal resources that helped lower operating costs in recent year, even though the overall revenue for the six-month period ended 30 June 2020 (the “Period”) decreased, the Group was able to maintain its profit in such a difficult environment.

As a leading enterprise of digitalised transformation services provider in China, the Group mainly specialises in providing enterprise IT infrastructure products, services and solutions, cloud computing management products and intelligent digitalised application products. Driven by the growing efforts of enterprise clients in China’s market to transform their operations through digitalisation, the Group embraced the opportunity to reposition and adjust its businesses, consolidating the core business into three segments, namely the systems integration services, the development and sales marketing of own-brand cloud computing management products, and the development and sales marketing of intelligent digitalised products.

Systems integration services

The Group’s systems integration services business has maintained its strong growth. This segment mainly provides customer-specific systems structure business solutions, as well as operation and maintenance support to customers’ informationalised value-added services. By working with leading domestic and foreign-established IT companies and service providers as close collaborative partners, the Group strives to explore cooperation and business opportunities in advanced technology sectors. Its objective is to maintain its position and strength as a technology pioneer in the industry while growing the Group’s businesses. For the Period, the systems integration services business was facing 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 margin so as to ensure good cash flow and enhance profitability.

Development and sale of own-brand cloud computing management products

After investing in resources and R&D for several years, the cloud computing management products segment has become one of the Group's key businesses. To enhance the reliability, functionality and market recognition of its products, the Group continues to improve associated technologies and step up marketing efforts for its own-brand cloud computing products. At the same time, it has commenced cooperation with the top providers of cloud resources in Mainland China and overseas such as AWS, Tencent Cloud and Alibaba Cloud, and actively offered its leading enterprise customers in China's market with highly efficient applications and solutions through its cloud products and cloud management services. During the Period, the Group not only launched the latest edition of multi-cloud management platform CMP2020, but also other products such as ITGo virtualised operation maintenance and management platform as well as enterprise cloud drive, in order to facilitate customer's enterprise digitalised transformation with better hybrid cloud management services. In addition, the Group has won the bids for several major projects and signed cooperation agreements with various top providers of cloud resources, thus laying a good foundation for future income.

Development and sale of intelligent digitalised products

Driven by the overwhelming trend of 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 adoption of new and advanced AI technologies and tools has enabled the Group to more precisely serve customers in specific industries. The Group also allocated more resources in intelligent digitalised products, formed AI laboratories managed by professionals holding doctoral and master's degrees from renowned universities in Mainland China, cooperated with renowned "Project 985" educational institutions in Mainland China and enlisted experts and business organisations in the industry to form strategic partnerships. During the Period, the AI Lab in Chengdu officially commenced operation, and together with the AI Lab in Beijing, the Group currently has two R&D centres in the South and North respectively, which are set to speed up product development, enabling the Group to further optimise AI algorithm models and compile knowledge graphs. While the Group continues to provide professional services to different customers, it is also actively accumulating industry reserves to lay a solid foundation for future business development.

FINANCIAL REVIEW

Revenue

For the Period, revenue of the Group decreased by approximately RMB154.4 million or 28.1% as compared with the corresponding period of 2019, to approximately RMB394.3 million (2019: approximately RMB548.7 million). The decline was mainly due to the outbreak of COVID-19 pandemic as well as the macroeconomic uncertainty which led to some of the Group's customers delaying their purchase plan and having remained cautious with their spending. Besides, the sales of IBM products and services were affected due to the termination of the various business partner agreements entered into between IBM and certain members of the Group.

Gross profit

Gross profit of the Group decreased by approximately RMB23.9 million or 35.0% to approximately RMB44.4 million for the Period (2019: approximately RMB68.3 million), while the gross profit ratio decreased from 12.4% to 11.3%. The decrease in gross profit ratio was mainly due to the decline in sales of certain products that led to a reduction of rebate received by the Group.

Other income and other gains, net

Other income and other gains, net consisted mainly of interest income from bank deposits, foreign exchange gain or loss, government grants and reversal of impairment loss on trade receivables and contract assets. During the Period, net gains from other income and other gains, net amounted to approximately RMB8.4 million (2019: approximately RMB4.1 million), representing an increase of approximately RMB4.3 million. This increase was mainly due to the Group's effort in monitoring the recoverability of receivables causing a reversal of impairment loss amounted to approximately RMB3.7 million, and the increase in foreign exchange gain of approximately RMB1.1 million for the Period.

Selling expenses

For the Period, selling expenses of the Group amounted to approximately RMB31.5 million (2019: approximately RMB39.2 million), representing a decrease of approximately RMB7.7 million or 19.6% when compared with the corresponding period of 2019. The decrease was mainly due to the amount of approximately RMB8.4 million was capitalized as intangible assets for the Period.

Administrative expenses

Administrative expenses of the Group for the Period amounted to approximately RMB13.1 million (2019: approximately RMB17.3 million), representing a decrease of approximately RMB4.2 million or 24.6% when compared with the corresponding period of 2019. The decrease was mainly due to the Group's implementation of tight cost control measures and the reduction in number of administrative staff following consolidation of its internal resources, causing the staff costs and other related expenses to fall accordingly.

Finance costs

Finance costs of the Group decreased by approximately RMB1.1 million or 94.4%, from approximately RMB1.2 million for the six-month period ended 30 June 2019 to approximately RMB0.1 million for the Period. The decrease was mainly due to the significant reduction in borrowings as the Group maintained sufficient working capital and cash flow during the Period.

Income tax expense

Income tax expense of the Group for the Period amounted to approximately RMB4.9 million (2019: approximately RMB5.6 million), representing a decrease of approximately RMB0.7 million, or 12.2%, when compared with the corresponding period of 2019. The decrease was mainly due to the decline in one-off PRC withholding tax on the dividends declared in respect of profits earned by a PRC subsidiary during the corresponding period of 2019 and a decline in deferred tax assets in respect of the decrease in impairment loss on trade receivables.

Profit and comprehensive income for the period attributable to owners of the Company

For the Period, the profit and comprehensive income attributable to owners of the Company amounted to approximately RMB3.2 million (2019: approximately RMB9.0 million), representing a decrease of approximately RMB5.8 million, or 64.8%, as compared with the corresponding period of 2019. Due to the outbreak of COVID-19 pandemic as well as the macroeconomic uncertainty, the decrease in revenue outweighed the effect of implementation of stringent cost controls over its operating expenses during the Period, causing profit attributable to owners of the Company to decline.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its daily operations with internally generated cash flows and banking facilities. As at 30 June 2020, the Group had total assets of approximately RMB750.3 million and net assets of approximately RMB548.9 million (31 December 2019: approximately RMB727.5 million and approximately RMB545.5 million, respectively). In respect of the trade receivables and contract assets of the Group amounted to approximately RMB177.8 million (31 December 2019: approximately RMB165.1 million), net of allowance for doubtful debts of approximately RMB78.7 million (31 December 2019: approximately RMB88.1 million). The management will perform a regular review and implement stringent control measures on trade receivables and contract assets 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 RMB385.0 million as at 30 June 2020 (31 December 2019: approximately RMB375.0 million). Bank borrowings amounted to approximately RMB0.1 million (31 December 2019: approximately RMB10.6 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 30 June 2020, all (31 December 2019: 0.9%) bank borrowings were at variable interest rates.

As at 30 June 2020, 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 30 June 2020, certain assets of the Group with carrying value of approximately RMB39.3 million (31 December 2019: approximately RMB50.9 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 ratios as at 30 June 2020 and 31 December 2019 were 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 Period, the Group entered into certain RMB/USD foreign exchange forward contracts to hedge against the volatile RMB/USD exchange rate. The foreign exchange forward contracts were fully settled as at the end of the Period. The management will continue to monitor closely the Group's foreign currency exposure and requirements and arrange for hedging facilities when necessary.

SIGNIFICANT INVESTMENTS

During the Period, the Group did not hold any material investments.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six-month period ended 30 June 2020 (2019: nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2020, the Group had in total 335 (31 December 2019: 337) employees in the PRC and Hong Kong. Total staff costs amounted to approximately RMB43.6 million (six-month period ended 30 June 2019: approximately RMB44.0 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.

Emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and/or comparable market statistics.

The Company has share option schemes in place as an incentive to Directors and eligible employees.

PURCHASE, SALE AND REDEMPTION OF THE SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Period.

IMPORTANT EVENTS SUBSEQUENT TO THE FINANCIAL PERIOD

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

OUTLOOK

Looking ahead to the second half of 2020, the development of COVID-19 pandemic remains unpredictable and the complicated market environment also presents many uncertainties. The Group will continue to adjust its strategies to enhance its own competitiveness and persistently achieve its strategic goals. While ensuring the stable development of its system integration services business for enterprise customers, the Group will also proceed in two directions, namely multi-cloud management services in cloud computing and medical intelligence. It will continuously invest in the building of platforms for technical capabilities and intellectual property rights so as to develop a series of intelligent technology-driven products.

In view of the rapid development of emerging technologies such as internet+, cloud computing and artificial intelligence, the Group will strive to strengthen the maintenance and service capabilities of its products in the new IT environment and improve the reliability and functionality of its self-developed software. 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 further enhance and optimise its cloud computing products, multi-cloud management solutions and the 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. technology and knowledge graphs to customers who are undergoing digital transformation in their respective industry such as the medical and transportation sectors, and also offering applications, services and solutions for the use in their professional areas.

In addition, the Group will continue to apply resources management solutions to ensure that resources are being utilised efficiently and maintain a high operational efficiency. At the same time, it will continue to prudently monitor and implement stringent cost control measures and focus on risk management of all its business cycles, 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 the complex market environment nowadays. The Company has engaged an external consultant to realign the development, strategies and branding of the Group. Consequently, aside from increasing investment in its proprietary innovative products, intelligent applications and services, the Group will step up its R&D efforts, refine technologies that have been amassed and also strengthen cost controls. It will make good use of its technological advantages to enhance its leading capabilities in technology and services.

CORPORATE GOVERNANCE

During the Period, the Board considered that the Company had applied the principles of and had complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report as stipulated in Appendix 14 to the Rules (the “**Listing Rules**”) Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

CODE OF CONDUCT REGARDING DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Director’s securities transactions. Having made specific enquiry by the Company, all Directors have confirmed their compliance with the required standard set out in the Model Code during the Period.

REVIEW OF ACCOUNTS

The unaudited condensed consolidated interim financial statements of the Group for the Period have been reviewed by the Company’s auditor, BDO Limited, in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance Standards Board. The auditor’s independent review report will be included in the 2020 interim report of the Company. The unaudited condensed consolidated interim financial statements of the Group for the Period have also been reviewed by the audit committee of the Company.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the website of the Company (www.futong.com.hk) and the Stock Exchange (www.hkexnews.hk). The 2020 interim report of the Company will be despatched to the shareholders of the Company and published on the aforementioned websites in due course.

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

Hong Kong, 21 August 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.