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 2016

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2016 amounted to approximately RMB3,441.2 million (2015: approximately RMB2,558.7 million), an increase of approximately 34.5% as compared with the corresponding period in 2015.

- Profit before tax of the Group for the year ended 31 December 2016 amounted to approximately RMB24.9 million (2015: approximately RMB24.0 million), an increase of approximately 3.6% as compared with the corresponding period 2015.

- Profit attributable to owners of the Company for the year ended 31 December 2016 amounted to approximately RMB17.7 million (2015: approximately RMB23.7 million), a decrease of approximately 25.4% as compared with the corresponding period in 2015.

- Basic earnings per share for the year ended 31 December 2016 amounted to approximately RMB0.06 (2015: approximately RMB0.08).

- The Board recommends the payment of a final dividend of HK1.9 cents per share for the year ended 31 December 2016 (2015: HK2.8 cents per share).

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 2016 together with comparative audited figures for the corresponding period in 2015, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

		Year ended 31 December	
	Notes	**2016**	2015
		RMB'000	*RMB'000*
Revenue	*4*	**3,441,198**	2,558,663
Cost of sales and services		**(3,194,407)**	(2,325,246)
Gross profit		**246,791**	233,417
Other income	*6*	**9,375**	12,105
Other gains and losses	*6*	**(14,612)**	(11,448)
Selling and distribution expenses		**(134,596)**	(125,856)
Administrative expenses		**(47,108)**	(43,120)
Profit from operations		**59,850**	65,098
Finance costs	*7(a)*	**(33,086)**	(39,441)
(Loss)gain recognised on disposal of interests in an associate		**(647)**	94
Share of loss of associates		**(1,234)**	(1,730)
Profit before tax		**24,883**	24,021
Income tax expenses	*8*	**(8,255)**	(715)
Profit for the year and total comprehensive income for the year	*7*	**16,628**	23,306
Profit for the year and total comprehensive income for the year attributable to:			
Owners of the Company		**17,667**	23,674
Non-controlling interests		**(1,039)**	(368)
		16,628	23,306
Earnings per share			
— Basic and diluted (RMB)	*10*	**0.06**	0.08

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	Notes	At 31 December 2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	*11*	**25,883**	27,762
Other intangible assets		**3,817**	2,509
Interest in associates		**7,326**	11,724
Deferred tax assets		**28,701**	36,097
Total non-current assets		**65,727**	78,092
Current assets			
Inventories		**433,486**	360,680
Trade and other receivables	*12*	**1,266,901**	831,230
Tax recoverable		**1,117**	—
Pledged deposits		**226,698**	167,472
Bank balances and cash		**172,648**	341,823
Total current assets		**2,100,850**	1,701,205
Current liabilities			
Trade and other payables	*13*	**981,246**	740,820
Borrowings		**603,728**	463,331
Tax payable		**—**	3,399
Total current liabilities		**1,584,974**	1,207,550
Net current assets		**515,876**	493,655
NET ASSETS		**581,603**	571,747
CAPITAL AND RESERVES			
Share capital		**27,415**	27,415
Reserves		**549,562**	538,667
Attributable to owners of the Company		**576,977**	566,082
Non-controlling interests		**4,626**	5,665
TOTAL EQUITY		**581,603**	571,747

1. GENERAL INFORMATION

Futong Technology Development Holdings Limited (the **"Company"**) is a public limited company incorporated in Cayman Islands as an exempted company with limited liability. Its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("**SEHK**").

Its immediate and ultimate parent is China Group Associates Limited (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.

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

The Company and its subsidiaries (hereinafter collectively referred to as the "**Group**") are principally engaged in the provision of enterprise IT infrastructure products and services.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to International Financial Reporting Standards ("**IFRSs**'') issued by the International Accounting Standards Board ("**IASB**") for the first time in the current year:

Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRS 11	Accounting for Acquisitions of interests in joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Annual Improvements to IFRSs	2012-2014 Cycle

The application of the above amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and on the disclosures set out in these consolidated financial statements.

3. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

4. REVENUE

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Sales of goods	**3,159,985**	2,254,533
Provision of services	**281,213**	304,130
	3,441,198	2,558,663

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Sales of Huawei products	**1,292,787**	676,212
Sales of IBM products	**865,902**	928,095
Sales of Oracle products	**427,978**	313,902
Sales of other products	**573,318**	336,324
	3,159,985	2,254,533

5. SEGMENT REPORTING

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

The chief operating decision maker considers that the operation of the Group constitutes a single operating segment as the revenue and profit are derived entirely from the provision of enterprise IT products and services to customers in the PRC. Accordingly, no segment analysis is presented. The majority of property, plant and equipment is located in the PRC. The information reported to senior executive management of the Company for the purpose of resources allocation and assessment of performance are same as the amounts reported under IFRSs.

The Group's customer base is diversified and there are no customers whose transactions have exceeded 10% of the Group's revenue in 2016 and 2015.

6. OTHER INCOME, GAINS AND OTHER LOSSES

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Other income		
Interest income	**2,377**	6,496
Government grants *(note)*	**3,397**	4,922
Others	**3,601**	687
	9,375	12,105
Other gains and losses		
Gain (loss) on disposal of property, plant and equipment	**692**	(2)
Impairment loss on trade receivables	**(9,017)**	(5,234)
Foreign exchange losses	**(5,719)**	(6,152)
Others	**(568)**	(60)
	(14,612)	(11,448)

Note:

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

7. PROFIT FOR THE YEAR

Profit for the year is arrived at after charging:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
(a) Finance costs:		
Interest on borrowings wholly repayable within five years	**33,086**	39,441
(b) Staff costs (including directors):		
Salaries and allowances	**107,514**	96,430
Contributions to retirement benefit schemes	**10,964**	10,391
Equity-settled share-based payment	**777**	228
	119,255	107,049

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. The subsidiaries are required to contribute a 13% to 20% of payroll costs (subject to a cap) to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

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

The total cost charged to profit or loss of RMB10,964,000 (2015: RMB10,391,000) represents contributions payable to these schemes by the Group in respect of the year ended 31 December 2016. As at 31 December 2016 and 2015, the amount due but not paid to the schemes is insignificant.

(c) Other items:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Depreciation	**5,098**	6,348
Amortisation of other intangible assets	**2,166**	130
Research and development costs	**2,108**	450
Auditors' remuneration	**2,199**	2,447
Cost of inventories recognised as an expense, net of write back of inventories	**2,953,941**	2,062,864

8. INCOME TAX EXPENSES

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current tax — Hong Kong Profits Tax		
Provision for the year	**3,005**	6,421
	3,005	6,421
Current tax — PRC income tax		
Provision for the year	**4,658**	4,541
Tax refund *(note (iv))*	**(4,186)**	—
(Reversal) additional provision *(note (iv))*	**(2,618)**	2,618
	(2,146)	7,159
Deferred tax		
Change in tax rate *(note (iv))*	**9,192**	(9,025)
Credit for the year	**(1,796)**	(3,840)
	8,255	715

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

(ii) Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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

(iv) A subsidiary of the Group operating in China has been granted continuously on a three years interval with a qualification of high-tech enterprise which would entitle the subsidiary a preferential income tax rate of 15%. The latest grant of the qualification to the subsidiary covers the year 2014 to 2016 was obtained by the subsidiary in December 2014. However, in both 2015 and 2014, the subsidiary received tax notices from relevant tax authority for suspending such entitlement for the year 2013 and onwards as a result of a dispute regarding the compliance with certain regulations on managing VAT invoices then prevailing in China in 2012. In response to the suspension, additional income tax provisions of the subsidiary for 2013 and 2014 had been provided at 25% with regard to the EIT Law accordingly in 2014 and 2015 respectively. And the income tax for 2015 was provided at 25%. The subsidiary settled the dispute with the tax authority in 2016 that has resulted in the reinstatement of the use of a preferential tax rate of 15% for the years 2013 to 2015. Accordingly, the subsidiary received a tax refund of approximately RMB4.2 million for the years in respect of additional income tax previously paid. At the same time, the additional provision for the year 2014 of approximately RMB2.6 million not yet paid was reversed by the subsidiary. Subsequent to the year end on 6 March 2017, the subsidiary has obtained a reply from the tax authority for the continuous use of the preferential tax rate of 15% in 2016 according to the above-mentioned entitlement under the qualification of high-tech enterprise. Accordingly, in the opinion of the Directors of the Company, the subsidiary is subjected to a preferential income tax rate of 15% for year 2016 and would be granted with the qualification of high-tech enterprise and enjoy the preferential tax rate of 15% for year 2017 and onwards after the provision of certain filings to the relevant authorities by the subsidiary. As a result, the Group has revised the estimate of future applicable income tax rate from 25% to 15% and an amount of RMB9,192,000 of deferred tax charge resulting from such change of tax rate is recognized in the profit and loss of the current year.

9. DIVIDENDS

	2016	2015
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year: 2015 final dividend: HK2.8 cents, equivalent to RMB2.4 cents (2014 final dividend: HK4.0 cents, equivalent to RMB3.2 cents) per share	**7,549**	10,127

Subsequent to the end of the reporting period, a final dividend of HK1.9 cents (approximately equivalent to RMB1.6 cents) per share in respect of the year ended 31 December 2016 (2015: final dividend of HK2.8 cents (approximately equivalent to RMB2.4 cents per share), totaling approximately HK$5,914,000 (approximately RMB5,123,000) (2015: HK$8,715,000 approximately RMB7,549,000) based on the total number of issued ordinary shares as at the date of issuance of these consolidated financial statements, has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

10. EARNINGS PER SHARE

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

	2016	2015
	RMB'000	*RMB'000*
Earnings for the purpose of basic and diluted earnings per share	**17,667**	23,674
	'000	*'000*
Number of ordinary shares for the purpose of basic earnings per share	**311,250**	311,250
Effect of dilutive potential ordinary shares:		
Options	**107**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**311,357**	311,250

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the share options granted on 18 January 2016. The computation of diluted earnings per share does not assume the exercise of the Company's share options granted on 15 June 2011, 24 August 2015 and 14 October 2016 respectively because the exercise prices of those share options were higher than the average market price of the Company's shares in 2016.

11. PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2016, the Group spent RMB4,307,000 (2015: RMB5,062,000) to acquire leasehold improvement, furniture, fittings and equipment.

12. TRADE AND OTHER RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**1,195,914**	776,581
Less: allowance for doubtful debts	**(48,595)**	(40,067)
	1,147,319	736,514
Bills receivables	**79,176**	44,463
Prepayments *(note (i))*	**24,660**	35,416
Deposits *(note (ii))*	**11,122**	13,310
Other receivables	**4,624**	1,527
	1,266,901	831,230

Notes:

(i) Prepayments consist of advance payments made to suppliers for purchases of inventory and other prepaid expenses.

(ii) Deposits mainly consist of bidding deposits and utilities deposits. Bidding deposits are deposits placed upon bidding of sales contracts and are refundable to the Group regardless of the outcome of the bids.

(iii) Aging analysis

The Group allows an average credit period of 30-90 days to its trade customers. For certain major customers such as the state owned enterprises, the credit term will be negotiated by the management with the major customers on an individual basis. The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts respectively presented based on the revenue recognition date at the end of the reporting period.

	2016	2015
	RMB'000	*RMB'000*
0-30 days	**515,372**	313,428
30-60 days	**233,661**	138,075
60-90 days	**122,868**	57,612
More than 90 days	**354,594**	271,862
	1,226,495	780,977

Included in the Group's trade and bills receivables balance are debtors with aggregate carrying amount of RMB272,641,000 (31 December 2015: RMB195,135,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

12. TRADE AND OTHER RECEIVABLES *(Continued)*

(iii) Aging analysis *(Continued)*

Aging of trade and bills receivables which are past due but not impaired

	2016	2015
	RMB'000	*RMB'000*
Less than 1 month past due	**124,060**	33,483
1 to 3 months past due	**43,656**	46,419
More than 3 months	**104,925**	115,233
Total	**272,641**	195,135

13. TRADE AND OTHER PAYABLES

	2016	2015
	RMB'000	*RMB'000*
Trade payables	**512,329**	292,741
Bills payable	**182,876**	234,463
Receipts in advance	**205,792**	142,506
Other payables and accruals	**80,249**	71,110
	981,246	740,820

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

(a) The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2016	2015
	RMB'000	*RMB'000*
0-60 days	**353,919**	215,497
60-90 days	**3,428**	6,736
Over 90 days	**154,982**	120,083
	512,329	342,316

(b) Bills payable are normally issued with a maturity of not more than 120 days. The bills payable were secured by leasehold buildings with carrying amount of RMB17,950,000 (2015: RMB18,859,000) and pledged deposit of RMB94,218,000 (2015: RMB90,001,000) as at 31 December 2016. The available unutilised facility for issuance of bills at 31 December 2016 was approximately RMB295,055,000 (2015: RMB121,686,000).

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

Sales of IBM products

For the year ended 31 December 2016 (the "**Year**"), revenue from the sales of IBM's hardware and software products, including enterprise servers, system storage products and software, and which are often bundled with value-added services, amounted to approximately RMB865.9 million (2015: approximately RMB928.1 million. This comparative figure was restated by reclassifying RMB74.3 million to the "sales of other products" category). The revenue from sales of IBM products for the Group was relatively stable as compared with last year though IBM itself has been undergoing a global scale business structural reform, proactively deploying its development in the cognitive services business. In light of this, the Group expected that the revenue from sales of IBM products of the existing categories will remain stable. Nonetheless we look forward to co-operate with IBM in the field of cognitive services in the future.

Sales of IBM's products and provision of related services remained as a major, though no longer the Group's primary revenue generator, accounting for approximately 25.2% of its total revenue for the year ended 31 December 2016 (2015: approximately 39.2 %).

Sales of Huawei products

Distribution business of Huawei products has achieved an encouraging results for the Year. The revenue from this business continued to grow strongly, surpassing that of IBM products, hence the sales of Huawei products has become the major revenue generator of the Group. This business, which included sales of servers, storage and cloud computing products, reported strong growth for the past two years and the growth momentum has continued. For the Year under review, it recorded a leap of 91.2% in revenue, representing an increase of RMB616.6 million to approximately RMB1,292.8 million (2015: approximately RMB676.2 million). The amount accounted for approximately 37.6% of the Group's total revenue for the Year (2015: approximately 26.4%). This impressive result was inseparable with the outstanding performance achieved by Huawei itself in the field of information and communications technology.

Sales of Oracle products

For the Year under review, revenue from sales of Oracle products and related services, including database management software, middleware for application servers and systems products, amounted to approximately RMB428.0 million (2015: approximately RMB313.9 million), an increase of 36.3% as compared with the corresponding period of 2015. The amount accounted for approximately 12.4% of the Group's total revenue (2015: approximately 12.3%). Oracle products enjoy the leading position in the market, especially the database management products, hence the Group's revenue from sales of these products was able to show improvement.

Sales of other products

Other sources of revenue for the Group included sales of products of Sugon, Lenovo, EMC, SAP, VMware, the Group's own-brand products and other IT products and accessories. Revenue from these income sources amounted to approximately RMB573.3 million, an increase of approximately RMB237.0 million or 70.5% (2015: approximately RMB336.3 million, this comparative figure was restated as mentioned above). Among the different products in this income category, the revenue from sales of Sugon products surged by RMB292.8 million or 291.3% as compared with the corresponding period of 2015, to approximately RMB393.3 million. Revenue from sales of products in this category accounted for approximately 16.7% of the Group's total revenue for the Year (2015: approximately 13.1%).

Provision of services

During the Year, the revenue from provision of services amounted to approximately RMB281.2 million (2015: approximately RMB304.1 million), representing approximately 8.2% of the Group's total revenue (2015: approximately 11.9%).

FINANCIAL REVIEW

Revenue

For the Year under view, revenue of the Group increased by approximately RMB882.5 million or 34.5% as compared with the corresponding period in 2015, to approximately RMB3,441.2 million (2015: approximately RMB2,558.7 million). The increase was mainly due to significant increases in sales of products of Huawei, Sugon and Oracle, which reflects that the market demand for domestic brand products continued to be strong, and sales of industry-leading Oracle products to be rising in the market.

Gross profit

Gross profit of the Group increased by approximately RMB13.4 million or 5.7% to approximately RMB246.8 million for the Year (2015: approximately RMB233.4 million) while gross profit ratio decreased from 9.1% to 7.2%. The drop in gross profit ratio was understandable as the reliance of the sales mix of the Group was shifting from traditional overseas brand IT products to domestic brand products that face keen competition in price. However, the Group was able to counter price pressure with higher sales quantities and the shift in sales focus has given it opportunities to develop new markets and customers.

Other income, other gains and losses

This comprises of mainly interest income from bank deposits, government grants, foreign exchange loss and impairment loss on trade receivables. For the Year under review, net losses from other income, other gains and losses amounted to approximately RMB5.2 million (2015: net gain of approximately RMB0.7 million), representing an increase in net loss of approximately RMB5.9 million. This increase was mainly due to the decrease in bank interest income as no onshore pledged deposits were placed in the banks as security deposits for obtaining certain offshore bank borrowings as compared to last year. Furthermore, the increase in losses was also partially caused by increments in impairment loss on trade receivables.

Selling and distribution expenses

For the Year under review, selling and distribution expenses of the Group amounted to approximately RMB134.6 million (2015: approximately RMB125.9 million), representing an increase of approximately 6.9% compared with the corresponding period in 2015. The increase was mainly due to rise in staff costs with salary increments in line with general inflation, maintaining remuneration packages competitive with the market, and increase in sales bonus distributed to high-performing staff.

Administrative expenses

Administrative expenses of the Group for the Year amounted to approximately RMB47.1 million (2015: approximately RMB43.1 million), representing 9.2% increase as compared with the corresponding period in 2015. The increase was mainly due to the increase in amortization of research and development cost for the development of our own brand products and a raise in staff cost as a result of general inflation and more resources were invested in the research and development of our products during the Year.

Finance costs

Finance costs of the Group continued to decrease by approximately RMB6.4 million or 16.1% from approximately RMB39.4 million for the year ended 31 December 2015 to approximately RMB33.1 million for the Year. The decrease was mainly due to the decrease in both the average borrowing amounts and weighted average borrowing interest rate during the Year.

Income tax expenses

With reference to the tax issue mentioned in the 2015 annual report and 2016 interim report under the section “Management Discussion and Analysis” with heading “Income Tax Expenses”, there was a change in income tax rate from 15% to 25% for Beijing Futong Dongfang Technology Co., Ltd. (“**Futong Dongfang**”), a PRC subsidiary of the Company. As a result of the recalculation of deferred tax due to the income tax rate change in the year ended 31 December 2015, approximately RMB9.0 million additional deferred tax assets were credited to and off-set the income tax expenses of the Group for the year ended 31 December 2015.

Futong Dongfang has continued to negotiate with the relevant tax authorities to recover the penalty and extra tax, and to reinstate its entitlement to the preferential income tax rate during the Year. In the fourth quarter of the Year, the relevant tax authorities issued a tax notice to Futong Dongfang which states that the tax penalty previously imposed against Futong Dongfang is revoked. As a result, all such part of penalty in the sum of approximately RMB0.3 million, together with all those extra tax charged for prior years in the sum of approximately RMB4.2 million, all of which were previously paid by Futong Dongfang were returned to Futong Dongfang. At the same time, the additional income tax provision for the year 2014 of approximately RMB2.6 million not yet paid were also reversed during the Year.

Subsequent to the year end on 6 March 2017, Futong Dongfang has obtained a reply from the relevant tax authority for the continuous use of preferential tax rate of 15%. In the opinion of the Directors of the Company, Futong Dongfang is subjected to a preferential income tax rate of 15% for year 2016 and enjoy the preferential tax rate of 15% for year 2017 and onwards after the provision of certain filings to the relevant authorities. As a result, the Group has revised the estimate of future applicable income tax rate from 25% to 15% and an amount of approximately RMB9.2 million of deferred tax charge resulting from such change of tax rate is recognized in the profit and loss of the current year. Further disclosure related to this tax issue is set out in notes 8(iv) to the consolidated financial statements.

Profit for the year attributable to owners of the Company

For the year ended 31 December 2016, the profit attributable to owners of the Company amounted to approximately RMB17.7 million (2015: approximately RMB23.7 million), decreasing by approximately RMB6.0 million or 25.4%. The decrease was primarily due to the combined effects of the adjustment of deferred tax charged to income tax expenses, the increase in net losses from other income, other gains and losses, and the increase in operating expenses as mentioned above. The Group has continued to implement stringent cost controls over its operating expenses, especially finance costs which have been greatly reduced this year. All of these cost control measures together with the increase in gross profit due to strong growth in revenue has partially offset the decline in profits.

Liquidity and Financial Resources

The Group generally finances its daily operations from internally generated cash flows and banking facilities. As at 31 December 2016, the Group had total assets of approximately RMB2,166.6 million and net assets of approximately RMB581.6 million (31 December 2015: approximately RMB1,779.3 million and approximately RMB571.7 million, respectively). In respect of the trade receivables of the Group amounted to approximately RMB1,147.3 million (31 December 2015: approximately RMB736.5 million), net of allowance for doubtful debts of approximately RMB48.6 million (31 December 2015: approximately RMB40.1 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 RMB172.6 million as at 31 December 2016 (approximately RMB341.8 million as at 31 December 2015). The reduction in bank balances was, to a certain extent, due to the increase in purchase amount of certain inventories for which the suppliers involved granted a relatively short credit period or requested payment on delivery. However the management considered the collection period of the corresponding trade receivables was also relatively short, such that the liquidity of the Group can be secured at a healthy level. Bank and other borrowings amounted to approximately RMB603.7 million (31 December 2015: approximately RMB463.3 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 2016, approximately 11.1% (31 December 2015: approximately 7.2%) of total borrowings were at fixed interest rates.

As at 31 December 2016, the borrowings of the Group were advanced in RMB and USD while cash and cash equivalents were held at RMB, USD and Hong Kong dollars.

Pledge of Assets

As at 31 December 2016, certain assets of the Group with carrying value of approximately RMB244.6 million (31 December 2015: approximately RMB186.3 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 2016 was approximately 53.0 % (as at 31 December 2015 was 9.3%). This ratio was calculated as total borrowings less bank balances and cash, and relevant pledged deposits divided by total equity.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in foreign currencies, i.e, currencies other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily USD and Hong Kong dollars.

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

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK1.9 cents per share for the year ended 31 December 2016 to shareholders whose names appear on the register of members of the Company on 31 May 2017. The proposed final dividend will be paid on or about 12 June 2017, following the approval by the shareholders in the 2017 annual general meeting ("**2017 AGM**").

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 2017 AGM

Latest time for lodging transfers:	4:30 pm on Monday, 15 May 2017
Closure of register of members:	Tuesday, 16 May to Friday, 19 May 2017 (both dates inclusive)
Record date:	Friday, 19 May 2017
Date of 2017 AGM:	Friday, 19 May 2017

To determine the shareholders' entitlement to the proposed final dividend

Latest time for lodging transfers:	4:30 pm on Thursday, 25 May 2017
Closure of register of members:	Friday, 26 May 2017 to Wednesday, 31 May 2017 (both dates inclusive)
Record date:	Wednesday, 31 May 2017
Payment date for final dividend:	On or about Monday, 12 June 2017

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

In order to be eligible for attending and voting at the 2017 AGM and for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than the latest time for lodging transfers as stated above.

ANNUAL GENERAL MEETING

The 2017 AGM of the Company will be held on Friday, 19 May 2017. Notice of 2017 AGM will be published on the websites of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the Company and dispatched to the shareholders of the Company in due course.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2016, the Group had 499 (31 December 2015: 508) employees in the PRC and Hong Kong. Total staff costs amounted to approximately RMB119.3 million (2015: approximately RMB107.0 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.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

After deducting share issuance expenses, the net proceeds from the initial public offering of the Company's shares in December 2009 amounted to approximately RMB102.1 million. As at 31 December 2016, the Group had used approximately RMB10.7 million for setting up new branch offices, approximately RMB25.5 million for sourcing new enterprise IT products, approximately RMB15.3 million for establishment and expansion of IT solution support centers, approximately RMB10.2 million for setting up of training centers, approximately RMB10.2 million for general working capital purposes of the Group, and approximately RMB14.5 million for the investment in research and development of self-branded software and hardware enterprises IT products. The remaining balance of the net proceeds was placed in bank deposit accounts. The Group will apply the remaining net proceeds in the manner set out in the announcement of the Company dated 11 November 2015 in relation to the change in use of proceeds.

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 2016.

OUTLOOK

In the year 2016, mainland China's economy maintained a steady but slower pace of growth. The strategic direction of many information technology companies in China continued to transform their business toward the internet, cloud computing and big data. During the year under review, certain customers of the Group affected by various factors were still prudent about their large-scale IT procurement, therefore there was no single large sales transaction by the Group. Fortunately, despite operating under such difficult environment, our team was able to grasp every single sales opportunity, outperforming in sales of domestic brand products in particular, and achieving positive sales revenue growth.

The current business of the Group can be classified into three categories: the first is our traditional IT distribution business, through cooperation with leading global IT vendors such as IBM, Huawei and others to assist various customers in different fields to achieve better business performance and transformation; the second is our system integration business, which provides customers with one-stop IT solutions and services; furthermore, we are vigorously developing the third category of our business which is the Group's own-brand products. The Chinese IT market is beginning to mature, while independence, security, system administration and other elements are the primary factors that customers consider before they place their orders for IT products. Thus, the development of our own-brand products has become one of the Group's major strategic directions. Although the proportion of existing own-brand products is comparably less significant in our current business, its role serves as a crucial aspect of the Group's portfolio as it reflects the capability of the Group's independent innovation.

The impact of the Internet on all walks of life is disruptive, and even more so for the IT distribution industry. Currently, the path for traditional IT distribution business has narrowed as intensive competition arises. Customers demand not only IT products, but IT solutions that enable enhancement in their business systems and processes. The Group is well aware of this trend and will continue to place emphasis in providing well-rounded IT solutions to meet customers' demands and set it as our primary objective. The Group strives to help our customers improve their operational efficiency and IT systems capacity, and through constant communication, better understand their actual needs, in order to build stronger relationships.

The Group believes that the development of cloud platform business is not only the market trend, but also a must on the road to business transformation. The Group has partnered with leading public cloud service providers to assist our customers to construct and manage their cloud platform in order to improve the efficiency of their IT systems. In the future, we will not only be able to provide extensive public cloud services, but also extend our services to enterprise customers to customise their deployment of private cloud and hybrid cloud and address their individual needs.

The management of the Group deeply understands that the road of transformation is hard, takes time and courage, and is costly. While steadily advancing towards this goal, we will strictly control the costs and maintain a steady growth in business to protect the interests of the shareholders as a whole.

CORPORATE GOVERNANCE

During the year ended 31 December 2016, 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.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Director's securities transactions.

Having made specific enquiry by the Company, all Directors have confirmed their compliance with the required standard set out in the Model Code for the year ended 31 December 2016.

AUDIT COMMITTEE

The Group's audited consolidated results for the year ended 31 December 2016 have been reviewed by its Audit Committee, which comprises three independent non-executive Directors. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters.

SCOPE OF WORK PERFORMED BY AUDITORS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu 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 Messrs. Deloitte Touche Tohmatsu 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 2016 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, 22 March 2017

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